

WALLER LANSDEN DORTCH & DAVIS, PLLC

WALLER LANSDEN DORTCH & DAVIS PLLC
THE CHESAPEAKE BUSINESS CENTRE
1616 WESTGATE CIRCLE SUITE 106
BRENTWOOD, TENNESSEE 37027 8019
(615) 844 6212

WALLER LANSDEN DORTCH & DAVIS LLP
AFFILIATED WITH THE PROFESSIONAL LIMITED LIABILITY COMPANY
520 SOUTH GRAND AVENUE, SUITE 800
LOS ANGELES CALIFORNIA 90071
(213) 362 3680

NASHVILLE CITY CENTER
511 UNION STREET, SUITE 2700
POST OFFICE BOX 198966
NASHVILLE, TENNESSEE 37219-8966
(615) 244-6380
FAX (615) 244-6804
www.wallerlaw.com

2005 APR 4 PM 2:50
RECEIVED
WALLER LANSDEN DORTCH & DAVIS PLLC
809 SOUTH MAIN STREET
POST OFFICE BOX 1035
COLUMBIA TENNESSEE 38402-1035
(931) 388 6031

T.R.A. DOCKET ROOM

D. Billye Sanders
(615) 850-8951
billye.sanders@wallerlaw.com

April 4, 2005

VIA HAND DELIVERY

Pat Miller, Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37219

05-00095

Re: In the Matter of the Petition of Kentucky Utilities
Company for an Order Authorizing the Issuance of Securities
and the Assumption of Obligations

Dear Chairman Miller,

Enclosed are the original and thirteen copies of the above referenced Petition of Kentucky Utilities Company and a check for \$25.00 for the filing fee. Please contact me if you have any questions or need any additional information.

Sincerely,



D. Billye Sanders
Attorney for Kentucky Utilities
Company

cc. Kendrick R. Riggs, Esq.
John Wade Hendricks, Esq.
Elizabeth L. Cocanougher, Esq.

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN THE MATTER OF THE PETITION OF)
KENTUCKY UTILITIES COMPANY)
FOR AN ORDER AUTHORIZING THE)
ISSUANCE OF SECURITIES AND THE)
ASSUMPTION OF OBLIGATIONS)

Docket No. 05-_____

PETITION

Kentucky Utilities Company ("KU" or the "Company") hereby requests, pursuant to T.C.A. § 65-4-109, that the Tennessee Regulatory Authority ("TRA" or "Authority") authorize the issuance of securities, assumption of obligations and entrance into all necessary agreements and other documents relating thereto as more fully described herein. In support of this Petition, KU states as follows:

Description of the Company

1. The Company's full name is Kentucky Utilities Company. The post office address of the Company is One Quality Street, Lexington, Kentucky 40507. KU is a Kentucky and a Virginia corporation, a public utility as defined by T.C.A. § 65-4-101, and provides retail electric service to five customers in Tennessee. The Company also provides retail electric services to approximately 512,000 customers in seventy-seven counties in Kentucky and five counties in southwest Virginia. A description of KU's properties is set out in Exhibit 1 to this Petition. The Company is a wholly-owned subsidiary of LG&E Energy LLC. ("LG&E Energy"). LG&E Energy is an indirect subsidiary of E.ON AG. Fidelia Corporation ("Fidelia"),

a finance company subsidiary organized in Delaware, is an indirect subsidiary of E.ON. The debt would be owed to Fidelia and incurred for the purposes set out in this Petition

Correspondence Pertaining to the Petition

2. Correspondence or communications pertaining to this Petition should be directed to:

D. Billye Sanders
Waller Lansden Dortch & Davis
A Professional Limited Liability Company
511 Union Street, Suite 2700
Nashville, TN 37219-8966
Telephone: (615) 850-8951
Facsimile: (615) 244-6804
E-mail: bsanders@wallerlaw.com

Kendrick R. Riggs
John Wade Hendricks
Ogden Newell & Welch PLLC
1700 PNC Plaza
500 West Jefferson Street
Louisville, KY 40202
Telephone: (502) 582-1601

Elizabeth L. Cocanougher
Senior Corporate Attorney
LG&E Energy LLC
220 West Main Street
Louisville, KY 40202

Description Of The New Long-Term Debt

3. The Company proposes to borrow money from Fidelity in an amount not to exceed \$125,000,000 during the 2005 calendar year. The Company anticipates using fixed rate notes to Fidelity with final maturities of between two and twelve years (the "Notes"). The current expectation is to issue Notes totaling \$50,000,000 in connection with refunding the external debt discussed below, during June, 2005. An additional \$75,000,000 would be issued in December, 2005 to replace maturing debt with Fidelity. Such borrowings would only occur if the interest rate on the loan from Fidelity would result in an equal or lower cost of borrowing than the Company could obtain in a loan from E.ON or in the capital markets on its own. All borrowings from Fidelity would be at the lowest of 1) E.ON's effective cost of capital; 2) Fidelity's effective cost of capital; and 3) the Company's effective cost of capital determined by reference to the effective cost of a direct borrowing by the Company from an independent third party for a comparable term loan that could be obtained at the time of the loan (the "Best Rate Method"). The Best Rate Method assures the Company that it will not pay more for a loan from Fidelity than it would pay in the capital markets for a similar loan. The Company has determined that it is cost effective to borrow money from Fidelity through this intercompany loan facility and desires to take advantage of this opportunity.

4. The interest rates on the Notes will be set at the time of issuance and would depend on the maturity of the Notes. The interest rate on each Note would be the lower of (a) the average of three quotes obtained by Fidelity from international investment banks for an unsecured bond issued by E.ON for the applicable term of the loan; and (b) the lowest of three quotes obtained by the Company from international investment banks for a first mortgage bond issued by the Company with the applicable term of the loan. This method complies with the Best Rate Method

because this rate would be determined using the lower of the average of actual quotes obtained based upon the credit of E.ON or the lowest of three actual quotes obtained by the Company, and has been previously approved by the Authority for KU in Docket Nos. 03-00522 and 03-00146.

5. KU currently has authority from the Securities and Exchange Commission ("SEC") to engage in secured long-term loan transactions with affiliates within the E.ON holding company system. The SEC Order dated August 15, 2003 (Release No. 35-27711; File No. 70-9985) (the "SEC Order") was previously filed with the Authority in Docket No. 03-00522. Secured transactions are necessary because of a limitation contained in KU's Articles of Incorporation requiring the consent of preferred stockholders if KU's unsecured debt exceeds 25% of the sum of (a) secured debt plus (b) capital and surplus. A copy of the provisions in KU's Articles of Incorporation containing this limitation is attached as Exhibit 2. If KU were to issue all the long-term debt required herein as unsecured debt, then in combination with KU's unsecured short-term debt, this limitation could be exceeded. If KU uses secured debt, this limitation would not be implicated.

KU's authority from the SEC to incur secured debt with an affiliate is set to expire May 31, 2005¹. The Company has requested an extension of this authority from the SEC. However, it is not certain when the SEC will grant this extension, and it is possible that the Company will need to incur some debt before its authority from the SEC for secured debt is extended. Therefore, the Company is requesting that the Authority grant the authority requested herein for either secured or unsecured debt, so long as the maximum total authority for \$125,000,000 is not exceeded.

¹ KU does not require approval from the SEC for unsecured debt approved by the Kentucky Commission

The debt, if secured, would be secured by a subordinated lien on KU's "equipment" as defined in Kentucky's Uniform Commercial Code (KRS Chapter 355) excluding such collateral that is not now subject to a lien pursuant to the Company's Trust Indenture. The intercompany debt would be subordinated to all existing and future debt issued under the Company's First Mortgage Bond Indenture. A form of the Loan and Security Agreement evidencing the security interest with the form of Note is attached as Exhibit 3. If KU were to use unsecured debt, then the form of Loan Agreement and Note is attached as Exhibit 4.

The interest rate would be determined as described in paragraph 4 herein. As set out in Exhibit 5, intercompany loans from within the E.ON holding company system will result in equal or lower financing cost than are otherwise available. The term of the loan would range from two to twelve years as determined by the Company based upon, among other things, the Company's financing needs. A Note will be executed by the Company each time a loan is made by Fidelia to the Company stating the interest rate, maturity date and payment terms. Issuance expenses for the intercompany loans described herein will not exceed, in total, the sum of \$50,000. In connection with the issuance of the debt, KU requests authority to enter into one or more interest rate hedging agreements (T-Bill lock, swap or similar agreement, collectively the "Hedging Facility") either with an affiliate within the E.ON system or with a bank or financial institution. The Hedging Facility would be an interest rate agreement designed to allow the Company to lock in the underlying interest rate on the loan in advance of the closing of the loan. The Hedging Facility will set forth the specific terms under which the Company will agree to make payments, and the other terms and conditions of any rights or obligations thereunder.

The Company would continue to comply with the cost of money, maturity and issuance expense provisions of the general financing parameters of the SEC Order.

Uses of Debt

6. Redemption of 7.55% First Mortgage Bonds, Series R. The Company proposes to use proceeds from the authority requested herein in connection with redeeming \$50,000,000 in principal amount of KU's 7.55% First Mortgage Bonds, Series R, due June 1, 2025, (the "Series R Bonds") which, after June 1, 2005, will be redeemable at 103.775% of principal amount. A copy of the redemption provisions with respect to the Series R Bonds is attached hereto as Exhibit 6. It is possible that if all needed approvals for the debt described herein are not obtained by June 1, 2005, the Company could redeem the Series R Bonds with short-term debt, which would subsequently be replaced by the long-term debt discussed herein. The Series R Bonds were authorized by the Tennessee Public Service Commission by Order dated June 12, 1995, in Docket No. 95-02262. The following table shows (i) the initial public offering price, (ii) proceeds to KU from the sale (after deducting underwriting discounts and commissions), and (iii) KU's expenses associated with the sale of the Series R Bonds:

	Public Offering Price	Proceeds	Expenses
7.55% First Mortgage Bonds, Series R	\$50,000,000	\$49,562,500	\$209,000

The proceeds of the Series R Bonds were used to reduce the Company's short-term debt including, but not limited to, short-term debt incurred in connection with the funding of capital expenditures. These capital expenditures included portions of projects approved by the Kentucky Public Service Commission ("KPSC") in Case No 92-005 (In the Matter of Application of Kentucky Utilities Company for a Certificate of Convenience and Necessity to Construct a Scrubber on Unit No. 1 of its Ghent Generating Station) for which tax exempt

funding was not available. These capital expenditures also included expenditures incurred with construction of combustion turbines at KU's E.W. Brown Generating Station authorized by the KPSC in Case No. 91-115 (In the Matter of Application of Kentucky Utilities Company for a Certificate of Convenience and Necessity and a Certificate of Environmental Compatibility to Construct four 75 Megawatt Combustion Turbine Peaking Units and Associated Facilities Scheduled for Completion in 1994 and 1995, Respectively, to be Located at the Company's E W Brown Generating Station in Mercer County, Kentucky), and Case No. 93-474 (In the Matter of Application of Kentucky Utilities Company for a Certificate of Convenience and Necessity to Construct a 110 Megawatt Combustion Turbine Generating Unit and Associated Facilities Scheduled for Completion in 1996 to be Located at the Company's E.W. Brown Generating Station in Mercer County, Kentucky). These facilities are described with greater detail in the records of KPSC Case Nos. 95-204, 92-005, 91-115 and 93-474.

The Series R Bonds bear interest at the rate of 7.55%. Based on current interest rates, the Company expects that intercompany debt could be issued initially at lower rates, whether variable or fixed, providing interest rate savings (see the net present value savings analysis attached hereto as Exhibit 7).

7. Replacement of Maturing Debt to Fidelity. The Company proposes to use proceeds from the authority requested herein to replace an existing, \$75,000,000 intercompany loan from Fidelity which matures on December 19, 2005. This existing debt was authorized by the Authority in Docket No. 03-00146. This debt was issued on December 18, 2003, carries a 2.29% interest rate, and involved no costs of issuance.

The funds were used for the purpose of reducing the Company's short-term debt. Because the Company's short-term debt is essentially fungible, it was not possible to trace

precisely whether a given dollar of short term debt was incurred for a specific purpose. Thus, the specific projects and uses of debt cited below represented causes for the increase in short-term debt, that the Company avoided, rather than any direct traceable uses of the debt authority that the Company received.

(a). A Reduction of Short-Term Debt. KU participates in a “money pool” arrangement with various affiliates within its registered holding company organization whereby it has the ability to incur up to \$400,000,000 of short-term indebtedness through the issuance of unsecured promissory notes, commercial paper, and/or borrowing under a money pool agreement. This arrangement has been approved by the SEC, and because KU operates as a utility in Virginia, by the Virginia State Corporation Commission as an affiliate transaction. Because only short-term debt is involved, the arrangement is not specifically subject to the approval of the Authority. Proceeds from the maturing Fidelia loan were used to reduce the outstanding short-term debt, and convert to fixed rate debt thereby reducing the Company’s risk of rising interest rates.

(b). Maturing Long-Term Debt. Proceeds were used to replace KU’s maturing 6.32% First Mortgage Bonds, Series Q, which matured on June 15, 2003. The Series Q Bonds were originally sold for \$62,000,000, with proceeds to KU of \$61,597,000 after deducting underwriting discounts and commissions, with associated expenses of \$95,333. The Series Q Bonds in turn were used to provide part of the refinancing for KU’s 7.625% First Mortgage Bonds, Series H, issued in May 1967, KU’s 8.750% First Mortgage Bonds, Series I, issued in April 1970, KU’s 7.62% First Mortgage Bonds, Series J, issued in September 1971, and KU’s 8.5% First Mortgage Bonds, Series N, issued in April 1977. The proceeds of KU’s Series H Bonds were used to reduce short-term borrowing in connection with KU’s construction program.

The proceeds of KU's Series I Bonds were used to pay for part of the costs of KU's construction program and to repay short-term borrowing. The proceeds of KU's Series J Bonds were used to reduce short-term borrowings in connection with KU's construction program. Proceeds of KU's Series N Bonds were used to redeem KU's First Mortgage Bonds, Series A, and to repay short-term borrowings. These issues and uses are discussed more fully in the record of Docket No. 03-00146, which is incorporated by reference herein.

(c). Acquisition of Combustion Turbines. KU acquired combustion turbines which are described with greater specificity in the record of KPSC Case No. 2002-00381 (Application of Louisville Gas and Electric Company and Kentucky Utilities Company for a Certificate of Public Convenience and Necessity for the Acquisition of Four Combustion Turbines and a Site Compatibility Certificate for the Facility).

(d). Cost of Pollution Control Program. In KPSC Case No. 2000-439 (Application of Kentucky Utilities Company for Approval of an Amended Compliance Plan for Purposes of Recovering the Cost of New and Additional Pollution Control Facilities and to Amend its Environmental Surcharge Tariff) by Orders dated May 14, 2001 and April 18, 2001, the Authority approved KU's 2001 Amended Pollution Control Compliance Plan. Included within that plan were various costs and expenditures including advanced low NOx burner systems for KU's Ghent 2 and 4 generating units, Selective Catalytic Reduction NOx reduction technology facilities for KU's Ghent 1, 3 and 4 and Brown 4 generating units and addition of Neural Network Technology, Overfire Systems and Burner Modifications for KU's Brown 1 and 2, Ghent 1 and 2, Green River 3, Pineville 3 and Tyrone generating units. These projects are described more specifically in the record of KPSC Case No. 2003-00059 and Case No. 2000-112

(Application of Kentucky Utilities Company and Louisville Gas and Electric Company for a Certificate of Public Convenience and Necessity to Construct Selective Catalytic Reduction (SER) NOx Control Technologies).

8. No contracts have been made for the disposition of any of the securities which KU proposes to issue, or for the proceeds of such sale.

9. KU shall, as soon as reasonably practicable after the issuance of the Refunding Bonds referred to herein, file with the Authority a statement setting forth the date or dates of issuance of the securities, the price paid therefore, the interest rate(s) (and, if applicable, their method of determination), and all fees and expenses, including underwriting discounts or commissions or other compensation, involved in the issuance and distribution.

10. Exhibit 8 to this Petition contains a financial exhibit in support of this Petition.

11. Exhibit 9 to this Petition is a certified copy of KU's Board of Directors resolution authorizing the issuance of the First Mortgage Bonds, the assumption of obligations under the Loan Agreement, and all transactions related thereto and discussed in this Petition.

12. In order to take advantage of these levels and any further improvement of the capital markets, the Company respectfully requests that the Authority process this Petition as expeditiously as practicable to afford the Company maximum flexibility in connection with this refinancing.

WHEREFORE, Kentucky Utilities Company respectfully requests that the Authority enter its Order authorizing it to issue securities and to execute, deliver and perform the obligations of KU under the Loan Agreement, and any Remarketing Agreements, and Credit Agreements and the various Credit and Hedging Facilities and other documents and related notes

set forth in this Petition. Kentucky Utilities Company further requests that the order of the Authority specifically include provisions stating:

1. KU is authorized to issue and deliver its secured or unsecured Notes in an aggregate principal amount not to exceed \$125,000,000 in the manner set forth in its Petition.

2. KU is authorized to execute, deliver and perform the obligations of KU under, inter alia, the Loan and Security Agreement and/or the Loan Agreement with Fidelity, the Notes, and such other agreements and documents as set out in its Application, and to perform the transactions contemplated by such agreements.

Respectfully submitted,

Kentucky Utilities Company

BY: *D. Billye Sanders*
D. Billye Sanders
Waller Lansden Dortch & Davis, PLLC
Nashville City Center
511 Union Street, Suite 2700
Nashville, TN 37219
(615) 850-8951

Kendrick R. Riggs
John Wade Hendricks
Ogden Newell & Welch PLLC
1700 PNC Plaza
500 West Jefferson Street
Louisville, Kentucky 40202
(502) 582-1601


Elizabeth L. Cocanougher
Senior Corporate Attorney
LG&E Energy LLC
220 West Main Street
Louisville, KY 40202

Counsel for Kentucky Utilities Company

VERIFICATION

COMMONWEALTH OF KENTUCKY }
 }
COUNTY OF JEFFERSON }

Daniel K. Arbough being first duly sworn, deposes and says that he is Treasurer for Kentucky Utilities Company, that he has read the foregoing Petition and knows the contents thereof, and that the same is true of his own knowledge, except as to matters which are therein stated on information or belief, and that as to these matters, he believes them to be true.



DANIEL K. ARBOUGH

Subscribed and sworn before me this 31st day of March, 2005.

My Commission Expires: August 31, 2007



NOTARY PUBLIC, STATE AT LARGE

List of Exhibits

- Exhibit 1 Description of KU's properties
- Exhibit 2 Excerpt from KU's Articles of Incorporation
- Exhibit 3 Loan and Security Agreement (secured debt)
- Exhibit 4 Loan and Security Agreement (unsecured debt)
- Exhibit 5 Cost of financing
- Exhibit 6 Redemption Provisions for Existing Bonds
- Exhibit 7 Net Present Value Savings Analysis
- Exhibit 8 KU Financial Exhibit
- Exhibit 9 Copy of Resolutions of KU's Board of Directors

KENTUCKY UTILITIES COMPANY

A DESCRIPTION OF PETITIONER'S PROPERTY, INCLUDING A
STATEMENT OF THE NET ORIGINAL COST OF THE PROPERTY
AND THE COST THEREOF TO PETITIONER

December 31, 2004

The Petitioner owns and operates four coal fired steam electric generating stations having an estimated total effective capacity, with all equipment in service, of about 2,934,000 Kw; a hydroelectric generating station having an estimated total effective capability of about 24,000 Kw; and thirteen gas/oil peaking units having an estimated total effective capability of about 1,499,000 Kw.

The Petitioner's owned electric transmission system includes 108 substations with a total capacity of approximately 16,978,000 Kva and approximately 4,239 structure miles of lines, The electric distribution system includes 491 substations with a total capacity of approximately 6,220,400 Kva, and 15,182 structure miles of lines.

Other properties include office buildings, service centers, warehouses, garages, and other structures and equipment.

The net original cost of the property and cost thereof to the Petitioner at December 31, 2004, was:

	Utility Plant
Original Cost	
Intangible Plant	21,143,275
Production Plant	1,985,551,748
Transmission Plant	489,776,803
Distribution Plant	970,012,777
General Plant	80,942,909
Transportation Plant	23,738,711
Construction Work in Progress	140,982,969
Plant Purchased or Sold	-
Total Plant at Original Cost	\$ 3,712,149,192
Less Reserve for Depreciation	1,681,813,237
Net Original Cost	\$ 2,030,335,955

(c) Issue any shares of Preferred Stock, or shares of any stock ranking on a parity with the Preferred Stock, or any securities convertible into shares of such stock, other than in exchange for, or for the purpose of effecting the redemption or other retirement of, shares of Preferred Stock, or of any stock ranking prior thereto or on a parity therewith, or both, at the time outstanding having an aggregate amount of par or stated value of not less than the aggregate amount of par or stated value of the shares to be issued, unless

(i) the net income of the corporation (determined in accordance with generally accepted accounting principles) plus all amounts representing interest charges and all amounts for or in respect of taxes based on or measured by income shall, for a period of twelve consecutive calendar months within the fifteen calendar months next preceding the issue of such shares, have been at least one and one-half (1½) times the sum of (x) the interest for one year, adjusted by provision for amortization of debt discount and expense or of premium, as the case may be, on all funded indebtedness and notes payable of the corporation maturing more than twelve months after the date of issue of such shares or convertible securities which shall be outstanding at the date of the issue of said shares or convertible securities, and (y) an amount equal to the dividend requirement for one year on all shares of the Preferred Stock of all series and on all other shares of stock, if any, ranking prior to or on a parity with the Preferred Stock, which shall be outstanding after the issue of the shares or convertible securities proposed to be issued; and

(ii) the capital represented by the Common Stock plus the surplus accounts of the corporation shall be not less than the aggregate amount payable on the involuntary dissolution, liquidation or winding up of the corporation, in respect of all shares of the Preferred Stock of all series and all shares of stock, if any, ranking prior thereto, or on a parity therewith, which shall be outstanding after the issue of the shares or convertible securities proposed to be issued.

No consent of the holders of the Preferred Stock shall be required in respect of any transaction enumerated in this paragraph (5) if, at or prior to the time when such transaction is to take effect, provision is made for the redemption or other retirement of all shares of the Preferred Stock at the time outstanding, the affirmative vote of which would otherwise be required hereunder.

(6) So long as any shares of the Preferred Stock of any series are outstanding, the corporation [except as otherwise provided in the last sentence of this paragraph (6)] shall not, without the affirmative vote of the record holders of shares of the Preferred Stock of all series at the time outstanding having in the aggregate a number of votes, calculated as provided in paragraph (2) of Division IV, at least equal to a majority of the total number of votes, as so calculated, possessed by all such holders:

(a) Issue or assume any unsecured indebtedness (as hereinafter defined) for any purpose, other than the refunding of secured or unsecured indebtedness theretofore created or assumed by the corporation and then outstanding or the retiring, by redemption or otherwise, of shares of the Preferred Stock or shares of any stock ranking prior thereto or on a parity therewith, if immediately after such issue or assumption the total principal amount of all unsecured indebtedness issued or assumed by the corporation and then outstanding would exceed twenty-five per centum (25%) of the aggregate of (i) the total principal amount of all bonds or other securities representing secured indebtedness issued or assumed by the corporation and then outstanding and (ii) the total of the capital and surplus of the corporation, as then recorded on its books; or

(b) Merge or consolidate with any other corporation or corporations, or sell or lease all or substantially all of the assets of the corporation, unless such merger, consolidation or sale or lease or the issue or assumption of all securities to be issued or assumed in connection therewith shall have been ordered, approved or permitted by all regulatory bodies, federal and state, then having jurisdiction in the premises.

"Unsecured indebtedness" as the term is used in this paragraph (6) shall mean all unsecured notes, debentures or other securities representing unsecured indebtedness (whether having a single maturity.

serial maturities or sinking fund or other similar periodic principal or debt retirement payment provisions) which have a final maturity date, determined as of the date of issuance or redemption thereof by the corporation, of less than three years. No consent of the holders of the Preferred Stock shall be required in respect to any transaction enumerated in this paragraph (5) if, as or prior to the time when such transaction is to take effect, provision is made for the redemption or other retirement of all shares of the Preferred Stock at the time outstanding, the affirmative vote of which would otherwise be required hereunder.

(7) No provision contained in the foregoing paragraphs (5) and (6) is intended or shall be construed to relieve the corporation from compliance with any applicable statutory provision requiring the vote or consent of a greater number of the holders of the outstanding shares of the Preferred Stock.

(8) So long as any shares of the Preferred Stock are outstanding, the corporation shall not pay any dividends on its Common Stock (other than dividends payable in Common Stock) or make any distribution on or purchase or otherwise acquire for value any of its Common Stock (such such payment, distribution, purchase and/or acquisition being herein referred to as a "Common Stock dividend"), except to the extent permitted by the following provisions of this paragraph (8):

(a) No Common Stock dividend shall be declared or paid in an amount which, together with all other Common Stock dividends declared in the year ending on (and including) the date of the declaration of such Common Stock dividend, would in the aggregate exceed fifty per centum (50%) of the net income of the corporation available for dividends on its Common Stock for the twelve consecutive calendar months ending on the last day of the calendar month next preceding the declaration of such Common Stock dividend. If at the end of such calendar month the ratio (herein referred to as the "capitalization ratio") of the Common Stock equity (as hereinafter defined) of the corporation, to the total capital (as hereinafter defined) of the corporation shall be less than twenty per centum (20%).

(b) If such capitalization ratio, determined as aforesaid, shall be twenty per centum (20%) or more, but less than twenty-five per centum (25%), no Common Stock dividend shall be declared or paid in an amount which, together with all other Common Stock dividends declared in the year ending on (and including) the date of the declaration of such Common Stock dividend, would exceed seventy-five per centum (75%) of the net income of the corporation available for dividends on its Common Stock for the twelve consecutive calendar months ending on the last day of the calendar month next preceding the declaration of such Common Stock dividend.

(c) If such capitalization ratio, determined as aforesaid, shall be twenty-five per centum (25%) or more, no Common Stock dividend shall be declared or paid which would reduce such capitalization ratio to less than twenty-five per centum (25%), except to the extent permitted by the next preceding paragraphs (a) and (b) hereof.

"Common Stock equity," as that term is used in this paragraph, shall consist of the sum of (1) the capital represented by the issued and outstanding shares of Common Stock (including premiums on Common Stock) and (2) the surplus accounts of the corporation, less (i) any known, or estimated if not known, excess of the value, as recorded on the corporation's books, over the original cost, of used and useful utility plant and other property, unless (a) such excess is being amortized or provided for by reserves, or (b) such excess has been held, by final order of a court having jurisdiction or of the regulatory bodies having jurisdiction, to constitute an asset which need not be amortized or provided for by reserves, and (ii) any excess of the aggregate amount payable on the involuntary dissolution, liquidation, or winding up of the corporation, in respect of its outstanding shares of preference stocks of all classes over the aggregate par value of, or if without par value over the capital represented by, such preference stocks unless such excess is being amortized or provided for by reserves, and (iii) any items such as debt discount, premium and expense, capital stock discount and expense and similar items, classified as assets on the balance sheet of the corporation, unless such items are being amortized or provided for by reserves. The "total capital of the corporation" shall consist of the sum of (i) the principal amount of all

LOAN AND SECURITY AGREEMENT

Dated as of _____, 200__

between

[LOUISVILLE GAS AND ELECTRIC COMPANY]

[KENTUCKY UTILITIES COMPANY]

and

FIDELIA CORPORATION

TABLE OF CONTENTS

1.	DEFINITIONS.....	1
1.1	General Terms.....	1
1.2	Accounting Terms.....	3
1.3	Others Terms Defined in the Code	3
1.4	Computation of Time Periods.....	3
1.5	Headings and References.....	3
2.	TERM LOANS	3
2.1	Loans.....	3
2.2	Request for Purchase.....	3
2.3	Interest.....	4
2.4	Notes	4
2.5	Closings.....	4
2.6	Payments.....	4
2.7	Term of This Agreement.....	5
3.	CONDITIONS OF ADVANCES	5
3.1	Documents	5
3.2	No Default.....	5
3.3	Reaffirmation of Representations and Warranties.....	5
4.	COLLATERAL	6
4.1	Security Interest	6
4.2	Appointment of the Lender as the Borrower's Attorney-in-Fact.....	6
4.3	Preservation of Collateral and Perfection of Security Interests	6
4.4	Reasonable Care.....	6
4.5	Termination of Security Interest and Liens	6
5.	REPRESENTATIONS AND WARRANTIES.....	7
5.1	Existence.....	7
5.2	Authority.....	7
5.3	Binding Effect.....	7
5.4	Financial Statements	7
5.5	Collateral.....	7
5.6	Chief Executive Office Jurisdiction of Incorporation.....	7
5.7	Other Corporate Names	8
5.8	Margin Security	8
5.9	Survival of Warranties	8
5.10	Compliance with Laws and Regulations.....	8
6.	COVENANTS	8
6.1	Financial Statements; Notices; Reports	8
6.2	Books, Records and Inspections	9
6.3	Conduct of Business	9
7.	EVENTS OF DEFAULT, RIGHTS AND REMEDIES OF LENDER.....	9
7.1	Events of Default	9

TABLE OF CONTENTS (continued)

7.2	Rights and Remedies Generally.....	10
7.3	Waiver of Demand.....	10
7.4	Marshalling; Payments Set Aside	10
8.	SUBORDINATION.....	11
8.1	Agreement to Subordinate	11
8.2	Administration of Collateral	11
8.3	Delivery of Proceeds of Collateral.....	11
8.4	Agreement Not to Contest	12
8.5	Release of Collateral	12
8.6	Release of Security Interest	12
8.7	Obligations under this Agreement Not Affected	12
8.8	Bankruptcy.....	12
8.9	Third Party Beneficiary.....	12
9.	MISCELLANEOUS	13
9.1	Amendments and Waivers	13
9.2	Severability	13
9.3	Notices	13
9.4	Counterparts.....	13
9.5	Prior Agreements	13
9.6	Successors and Assigns.....	13
9.7	CHOICE OF LAW	14

EXHIBITS

EXHIBIT A	—	Form of Note
-----------	---	--------------

LOAN AND SECURITY AGREEMENT

This LOAN AND SECURITY AGREEMENT, dated as of _____, 200 (this "Agreement"), is made between [LOUISVILLE GAS AND ELECTRIC COMPANY] [KENTUCKY UTILITIES COMPANY], a Kentucky [and Virginia] corporation, as borrower (the "Borrower"), and FIDELIA CORPORATION, a Delaware corporation, as lender (the "Lender").

WITNESSETH:

WHEREAS, the Borrower has requested that the Lender provide the Borrower with term loans;

WHEREAS, to induce the Lender to make such term loans available to the Borrower, the Borrower has agreed to secure its obligations to the Lender by granting the Lender a security interest in, and lien upon, the Collateral (as defined herein); and

WHEREAS, the Lender is willing to make such term loans available to the Borrower upon the terms and conditions set forth in this Agreement;

NOW, THEREFORE, in consideration of the foregoing and the mutual agreements contained in this Agreement, the Borrower and the Lender agree as follows:

1. DEFINITIONS.

1.1 **General Terms.** When used in this Agreement, the following terms have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"Affiliate", with respect to any Person, means another Person (i) that directly or indirectly, through one or more intermediaries, controls or is controlled by or is under common control with such Person, (ii) that directly or beneficially owns or holds 5% or more of any class of the voting stock of such Person or (iii) 5% or more of the voting stock (or in the case of a Person that is not a corporation, 5% or more of the equity interest) of which is owned directly or beneficially or held by such Person.

"Agreement" has the meaning set forth in the preamble.

"Authorized Officer" means at any time an individual whose signature has been certified to the Lender on behalf of the Borrower by a certificate now or hereafter executed on behalf of the Borrower and delivered to the Lender and whose authority has not been revoked prior to such time.

"Bond Trustee" means [Harris Trust and Savings Bank, as trustee] [U.S. Bank National Association, as successor trustee] under the First Mortgage Bond Indenture, or any successor trustee thereunder.

"Borrower" has the meaning set forth in the preamble.

"Business Day" means a day (other than a Saturday or Sunday) on which banks are open for business in Louisville, Kentucky and Wilmington, Delaware.

"Code" means the Uniform Commercial Code of the Commonwealth of Kentucky as in effect on the Closing Date.

"Collateral" has the meaning set forth in Section 4.1.

"Default" means any event that, with lapse of time or notice or lapse of time and notice, will constitute an Event of Default if it continues uncured.

"Dollars" and the **"\$"** each means lawful money of the United States of America.

"Equipment" has the meaning set forth in the Code and includes, without limitation, any and all of the Borrower's now owned or hereafter acquired machinery, equipment, furniture, furnishings and all tangible personal property similar to any of the foregoing (other than Inventory), together with all improvements, accessions and appurtenances thereto and any proceeds of any of the foregoing, including insurance proceeds and condemnation awards, excluding, however, any Equipment which is not subject to a Lien now or at any time hereafter pursuant to the First Mortgage Bond Indenture.

"Event of Default" means the occurrence or existence of any one of more of the events described in Section 7.1.

"First Mortgage Bond Indenture" means the [Trust Indenture dated November 1, 1949] [Indenture of Trust dated as of May 1, 1947] from the Borrower to the Bond Trustee, and any and all supplemental indentures thereof, as further amended and supplemented from time to time.

"GAAP" means generally accepted accounting principles, as in effect in the United States from time to time.

"Governmental Authority" means any nation or government, any federal, state, local or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Lender" has the meaning set forth in the preamble.

"Liabilities" means all of the Borrower's liabilities, obligations, and indebtedness to the Lender for monetary amounts, whether now or hereafter owing, arising, due or payable under this Agreement and the Notes howsoever evidenced, created, incurred, acquired, or owing.

"Lien" means any mortgage, deed of trust, pledge, hypothecation, assignment, collateral deposit arrangement, security interest, encumbrance for the payment of money, lien (statutory or other), preference, right of setoff, priority or other security agreement or preferential arrangement of any kind or nature whatsoever, including, without limitation, any conditional sale or other title retention agreement, or the interest of a lessor under a capital lease.

"Loan" has the meaning set forth in Section 2.1.

"Loan Account" has the meaning set forth in Section 2.9.

"Material Adverse Effect" means a material adverse effect upon (i) the business, assets, properties or condition (financial or otherwise), or results of operations of the Borrower, or (ii) upon the ability of the Borrower to perform or cause to be performed any of its obligations under this Agreement or the rights or remedies of the Lender under this Agreement.

"Note" has the meaning set forth in Section 2.5.

"Permitted Lien" means Liens created under or in connection with the First Mortgage Bond Indenture and Liens permitted by the First Mortgage Bond Indenture.

"Person" means any natural person, firm, enterprise, institution, corporation, association, partnership, trust, unincorporated organization, sole proprietorship, joint venture, limited liability company or Governmental Authority.

1.2 Accounting Terms. Any accounting terms used in this Agreement which are not specifically defined in this Agreement have the meanings customarily given them in accordance with GAAP.

1.3 Others Terms Defined in the Code. All other terms contained in this Agreement (and which are not otherwise specifically defined in the Agreement) have the meanings provided by the Code to the extent the same are used or defined in the Code.

1.4 Computation of Time Periods. In this Agreement in the computation of periods of time from a specified date to a later specified date, the words "from" or "commencing on" means "from and including" and the words "to," "through," "ending on" and "until" each mean "to but excluding."

1.5 Headings and References. Section and other headings are for reference only, and shall not affect the interpretation or meaning of any provision of this Agreement. Any Section or clause references are to this Agreement, unless otherwise specified. References in this Agreement or any other agreement include this Agreement and other agreements as the same may be amended, restated, supplemented or otherwise modified from time to time pursuant to the provisions hereof or thereof. A reference to any law, statute or regulation shall mean that law, statute or regulation as it may be amended, supplemented or otherwise modified from time to time, and any successor law, statute or regulation.

2. TERM LOANS.

2.1 Loans. The Lender, at its discretion, may make available to the Borrower term loans (the "Loans") from time to time pursuant to this Agreement, upon telephonic or written communication of a borrowing request from the Borrower as provided in Section 2.2.

2.2 Request for Loans. The Borrower may from time to time make requests for Loans (each such request being a **"Borrowing Notice"**) hereunder. Each Borrowing Notice shall (i) specify the principal amount of the Loan requested, (ii) specify the final maturity not to be less than one year from the Borrowing Date, (iii) specify the proposed date for the borrowing of

the Loan (the "Borrowing Date"), (iv) specify whether the Loan shall bear interest at a fixed rate or a floating rate, (v) specify the dates on which interest is to be paid, and (vi) specify the number of the account and the name and address of the depository institution to which the proceeds of the Loan are to be transferred on the Borrowing Date. Each Borrowing Notice may be given telephonically or in writing. Each such request for a Loan is subject to acceptance by the Lender, in its sole discretion.

2.3 Interest.

(A) **Interest Rate.** The interest rate payable by the Borrower on any Loan shall be set at such interest rate as the Borrower and the Lender shall agree, but in no event greater than the lowest of (i) the effective cost of capital of E.ON AG, (ii) the effective cost of capital of the Lender and (iii) the Borrower's effective cost of capital determined by reference to the effective cost of a direct borrowing by the Borrower from a nonassociate for a comparable term loan that could be entered into at such time. Such interest rate may be determined as a fixed interest rate or a floating rate, as specified by the Borrower in the Borrowing Notice.

(B) **Interest Payments.** Accrued but unpaid interest on each Loan is payable in arrears on dates agreed to by the Borrower and the Lender as specified in the Borrowing Notice and upon payment in full of such Loan.

(C) **Highest Lawful Rate.** In no contingency or event whatsoever will interest charged on the Loans, however, such interest may be characterized or computed, exceed the highest rate permissible under any law which a court of competent jurisdiction, in a final determination, deems applicable to the Loans. In the event that such a court determines that the Lender has received interest under the Loans in excess of the highest rate applicable to the Loans, any such excess interest collected by the Lender is deemed to have been a repayment of principal and will be so applied.

2.4 Notes. On each Borrowing Date, the Borrower shall issue to the Lender a promissory note (the "Notes") in a principal amount equal to the principal amount of the Loan to be made on such Borrowing Date; to bear interest on the unpaid balance thereof from the date thereof at the rate per annum as determined in accordance with Section 2.3(A); and to be substantially in the form of Exhibit A attached hereto. The term "Notes" as used herein shall include each Note delivered pursuant to this Agreement and each Note delivered in substitution or exchange for any such Note.

2.5 Closings. Not later than 11:30 A.M. (New York City local time) on the Borrowing Date for any Loan, the Borrower will deliver to the Lender at the offices of the Lender, a Note dated the Borrowing Date, evidencing the Loan to be made on such Borrowing Date, against payment of the Loan proceeds by transfer of immediately available funds for credit to the Borrower's account specified in the Borrowing Notice.

2.6 Payments.

(A) **Place of Payments.** The Borrower will make each payment under this Agreement and under the Notes not later than 2:00 p.m. (New York time) on the day when due to the Lender at its address set forth in Section 9.3 in immediately available funds. The Borrower's

obligations to the Lender with respect to such payments will be discharged by making such payments to the Lender under this Section 2.6.

(B) Timing of Payments. If any payment of any interest or fees owing under this Agreement falls due on a day that is not a Business Day, then such due date is extended to the next following Business Day.

(C) Optional Prepayments. On any interest payment date, and with at least three business day's prior written notice, the Borrower shall be entitled to prepay any amount of the loan outstanding, provided such payment is not less than \$1,000,000 and, provided further, the Borrower shall pay a prepayment charge equal to the present value of the difference between (i) the interest payable provided in this loan agreement and (ii) the interest payable at the prevailing interest rate at the time of prepayment, for the period from the date of prepayment through the final maturity date, which difference, if negative, shall be deemed to be zero. The present value will be determined using the prevailing interest rate at the time of the prepayment as the discount rate.

2.7 Term of This Agreement. This Agreement shall remain in full force and effect until the second Business Day after the Borrower or the Lender gives notice to the other party hereto stating that it elects to terminate this Agreement. Notwithstanding the termination of this Agreement, until all of the Loans under this Agreement have been paid in full and all financing arrangements between the Borrower and the Lender under this Agreement have been terminated, all of the Lender's rights and remedies under this Agreement survive and the Lender is entitled to retain its security interest in and to all existing and future Collateral.

3. CONDITIONS OF ADVANCES.

Notwithstanding any other provisions contained in this Agreement to the contrary, the making of each Loan provided for in this Agreement is conditioned upon the following:

3.1 Documents. The Lender has received all of the following (or the delivery of such has been waived), each duly executed, in form and substance satisfactory to the Lender, and delivered on or prior to the applicable Borrowing Date:

- (i) This Agreement, duly executed by the Borrower.
- (ii) The Note, evidencing such Loan, duly executed by the Borrower.
- (iii) UCC-1 financing statements listing the Borrower as debtor, and the Lender, as secured party, covering the Collateral.
- (iv) Certified copies of all documents evidencing any necessary corporate action, consents and governmental approvals, if any, with respect to this Agreement and the Notes.
- (v) A signature authorization certificate for the Borrower.
- (vi) Such other documents as the Lender may reasonably request.

3.2 No Default. No Default or Event of Default has occurred and is continuing.

3.3 Reaffirmation of Representations and Warranties . The representations and warranties contained in Section 5 are true and correct in all material aspects on and as of the Borrowing Date.

4. COLLATERAL.

4.1 Security Interest. To secure payment of the Liabilities and performance of its obligations under this Agreement and the Notes, the Borrower grants, mortgages, hypothecates and pledges to the Lender a continuing lien upon and security interest in all of the Borrower's right, title and interest in the Collateral, wherever located, whether now or hereafter existing, owned, licensed, leased (to the extent of the Borrower's leasehold interest in such property), consigned (to the extent of the Borrower's ownership interest in such property), arising or acquired, subject, however, in all respects to the provisions of Section 8. The "Collateral" shall consist of: (i) the Equipment; (ii) all insurance proceeds of or relating thereto, (iii) all of the Borrower's books and records relating to any of the foregoing; and (iv) all accessions and additions to, substitutions for, and replacements, products and proceeds of any of the foregoing.

4.2 Appointment of the Lender as the Borrower's Attorney-in-Fact. The Borrower irrevocably designates, makes, constitutes and appoints the Lender (and all persons designated by the Lender) as the Borrower's true and lawful attorney-in-fact, and authorizes the Lender, in the Borrower's or the Lender's name, upon the occurrence and during the continuation of an Event of Default, with respect to any item of Collateral or the proceeds of such Collateral, to do all acts and things which are necessary, in the Lender's sole discretion, to fulfill the Borrower's obligations under this Agreement.

4.3 Preservation of Collateral and Perfection of Security Interests. The Borrower will execute and deliver, or cause to be executed and delivered, to the Lender at any time or times after the date of this Agreement at the request of the Lender, all (i) financing statements or (ii) other documents (and, in each case, pay the cost of filing or recording the same in all public offices deemed necessary by the Lender), as the Lender may request, in a form satisfactory to the Lender, to perfect and keep perfected the security interest, and preserve the priority of such security interest, in the Collateral granted by the Borrower to the Lender or to otherwise protect and preserve the Collateral and the Lender's security interest in the Collateral. Should the Borrower fail to do so, the Lender is authorized to sign any such financing statements as the Borrower's agent. The Borrower further agrees that a carbon, photographic or other reproduction of this Agreement or of a financing statement is sufficient as a financing statement.

4.4 Reasonable Care. The Lender is deemed to have exercised reasonable care in the custody and preservation of any of the Collateral in its possession if it takes such action for that purpose as the Borrower requests in writing, but the Lender's failure to comply with any such request will not of itself be deemed a failure to exercise reasonable care.

4.5 Termination of Security Interest and Liens. The Lender's security interest and other liens in, on and to the Collateral terminates when all the Liabilities have been paid in full and this Agreement has been terminated, at which time the Lender will reassign and redeliver (or

cause to be reassigned and redelivered) to the Borrower, or to such Person as the Borrower designates, against receipt, such of the Collateral (if any) assigned by the Borrower to the Lender (or otherwise held by the Lender) as has not been sold or otherwise applied by the Lender under the terms of this Agreement and is still held by it under this Agreement, together with appropriate instruments of reassignment and release. Any such reassignment is without recourse upon or representation or warranty by the Lender and will be at the Borrower's cost and expense.

5. REPRESENTATIONS AND WARRANTIES.

The Borrower represents and warrants that as of the date of this Agreement and as of each Borrowing Date.

5.1 Existence. The Borrower is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Kentucky [and the Commonwealth of Virginia] and is duly qualified as a foreign entity and is in good standing in all jurisdictions where the nature and extent of the business transacted by it or the ownership of its assets makes such qualification necessary, except for those jurisdictions in which the failure so to qualify or to be in good standing would not have a Material Adverse Effect.

5.2 Authority. The execution and delivery by the Borrower of this Agreement and the Notes and the performance of the Borrower's obligations under this Agreement and the Notes: (i) are within the Borrower's corporate powers; (ii) are duly authorized by the Borrower's board of directors or other governing body; (iii) are not in contravention of the terms of the Borrower's certificate of incorporation or bylaws or of any material indenture, agreement or undertaking to which the Borrower is a party or by which the Borrower or any of its property is bound; (iv) does not require any consent, registration or approval of any Governmental Authority, which has not been obtained; (v) does not contravene any material contractual or governmental restriction binding upon the Borrower; and (vi) will not, except as contemplated in this Agreement, result in the imposition of any Lien, claim or encumbrance upon any property of the Borrower under any existing material indenture, mortgage, deed of trust, loan or credit agreement or other material agreement or instrument to which the Borrower is a party or by which it or its property may be bound or affected.

5.3 Binding Effect. This Agreement and the Notes are the legal, valid and binding obligations of the Borrower and are enforceable against the Borrower in accordance with their respective terms.

5.4 Financial Statements. The financial statements of the Borrower filed with the Securities and Exchange Commission since December 31, 2001 are in accordance with the books and records of the Borrower and fairly present the financial condition of the Borrower at the dates of such financial statements and the results of operations for the periods indicated (subject, in the case of unaudited financial statements, to normal year-end adjustments), and such financial statements were prepared in conformity with GAAP (other than the absence of notes to such financial statements).

5.5 Collateral. Except for Permitted Liens and as otherwise provided in Section 8.5, all of the Collateral is and will continue to be owned by the Borrower free and clear of all Liens, claims and encumbrances.

5.6 Chief Executive Office Jurisdiction of Incorporation. As of the date hereof, the principal place of business and chief executive office of the Borrower is located at [220 West Main Street, Louisville, Kentucky 40202] [1 Quality Street, Lexington, Kentucky 40507] and the Borrower has been duly incorporated in the Commonwealth of Kentucky [and the Commonwealth of Virginia].

5.7 Other Corporate Names. The Borrower has not used any other corporate or fictitious names in the past five years.

5.8 Margin Security. The Borrower owns no margin security and none of the proceeds of the Loans advanced under this Agreement will be used for the purpose of purchasing or carrying any margin securities or for the purpose of reducing or retiring any Indebtedness which was originally incurred to purchase any margin securities or for any other purpose not permitted by Regulations T, U or X of the Board of Governors of the Federal Reserve System.

5.9 Survival of Warranties. All representations contained in this Agreement survive the execution and delivery of this Agreement.

5.10 Compliance with Laws and Regulations. The execution and delivery by the Borrower of this Agreement and the performance of the Borrower's obligations under this Agreement and the Notes are not in contravention of any laws. The Borrower is in compliance with all laws, orders, regulations and ordinances of all federal, foreign, state and local governmental authorities relating to the business, operations and the assets of the Borrower, including, without limitation, Regulations T, U and X of the Board of Governors of the Federal Reserve System, except for laws, orders, regulations and ordinances the violation of which are not likely to have a Material Adverse Effect.

6. COVENANTS.

The Borrower covenants and agrees that, so long as any of the Liabilities remain outstanding:

6.1 Financial Statements; Notices; Reports. The Borrower will keep, in all material respects, proper books of record and account in which entries will be made of all dealings or transactions of or in relation to the business and affairs of the Borrower, in accordance with GAAP consistently applied. The Borrower will furnish to the Lender:

(A) SEC Reports. Copies of annual reports and quarterly reports filed by the Borrower with the Securities and Exchange Commission on Forms 10-K and 10-Q, within 20 Business Days of the date of filing of such report;

(B) Default Notices. As soon as practicable (but in any event not more than two Business Days after any Authorized Officer of the Borrower obtains knowledge of the

occurrence of an event or the existence of a circumstance giving rise to a Default or an Event of Default), notice of any and all Defaults or Events of Default;

(C) **Notice of Change of Name.** Notice in writing to the Lender, as soon as practicable and in any event within five days after the occurrence of any change in the name, address or jurisdiction of incorporation of the Borrower or the location of the books and records of the Borrower; and

(D) **Other Information.** With reasonable promptness, such other business or financial data as the Lender may reasonably request.

The Lender will take reasonable efforts to keep such information, and all information acquired as a result of any inspection conducted in accordance with Section 6.2 (and any other information provided to the Lender under this Agreement), confidential, provided that the Lender may communicate such information (i) in accordance with the Borrower's written authorization, (ii) to any regulatory authority having jurisdiction over the Lender, (iii) to any other Person in connection with the exercise of the Lender's rights under this Agreement, (iv) to any Person in any litigation in which the Lender is a party or (v) to any other Person if the Lender believes in its sole discretion that disclosure is necessary in connection with any legal process or informal investigative demand, whether issued by a court, judicial or administrative or legislative body or committee or other governmental authority. Notwithstanding the foregoing, information will not be deemed to be confidential to the extent such information (a) is available in the public domain, (b) becomes available in the public domain other than as a result of unauthorized disclosure by the Lender or (c) is acquired from a Person not known by the Lender to be in breach of an obligation of secrecy to the Borrower.

6.2 Books, Records and Inspections. The Lender, or any agent or employee designated by the Lender in writing, has the right, from time to time after the date of this Agreement, to call at the Borrower's place or places of business (or any other place where the Collateral or any information relating to the Collateral is kept or located) during reasonable business hours and, without unreasonable hindrance or delay, (i) to inspect, audit, check and make copies of and extracts from the Borrower's books, records, journals, orders, receipts and any correspondence and other data relating to the Borrower's business or to any transactions between the parties thereto, (ii) to make such verification concerning the Collateral as the Lender may consider reasonable under the circumstances and (iii) to discuss the affairs, finances and business of the Borrower with any officers, employees or directors of the Borrower.

6.3 Conduct of Business. Except as contemplated in this Agreement, the Borrower will (i) maintain its existence, (ii) continue in, and limit its operations to, the same general lines of business as that presently conducted by it or other businesses reasonably related thereto and (iii) comply with all laws, orders, regulations and ordinances of any federal, foreign, state or local governmental authority, except for such laws, orders, regulations and ordinances the violation of which has no reasonable likelihood of having a Material Adverse Effect.

7. EVENTS OF DEFAULT, RIGHTS AND REMEDIES OF LENDER.

7.1 Events of Default. If any one or more of the following events ("Events of Default") occurs:

(A) the Borrower fails to pay any of the principal of or interest on the Loans, or any Commitment Fees or other amounts due hereunder, within 10 Business Days after such amounts are due (whether by scheduled maturity, acceleration or otherwise);

(B) the Borrower fails or neglects to perform, keep or observe any of its covenants, conditions or agreements contained in this Agreement;

(C) any warranty or representation now or hereafter made by the Borrower under this Agreement is untrue or incorrect in any material respect when made;

(D) a proceeding under any bankruptcy, reorganization, arrangement of debt, insolvency, readjustment of debt or receivership law or statute is filed by or against the Borrower, the Borrower makes an assignment for the benefit of creditors or the Borrower takes any requisite action to authorize any of the foregoing and, in the case of an involuntary proceeding filed against the Borrower, such proceeding is not discharged or dismissed within 30 days;

(E) the Borrower voluntarily or involuntarily dissolves or is dissolved;

(F) the Borrower becomes insolvent or fails generally to pay its debts as they become due;

(G) the Lender shall cease to have a valid, perfected security interest in all or any material portion of the Collateral; or

(H) E.ON AG shall cease to own, directly or indirectly, at least 80% of the voting capital stock of the Borrower;

then the Lender, upon notice to the Borrower, may declare the Loans to be immediately due and payable, whereupon the Loans will become immediately due and payable; *provided*, that if an Event of Default described in Section 7.1(D) exists or occurs, the Loans shall automatically, without notice of any kind, become immediately due and payable.

7.2 Rights and Remedies Generally. Subject to the subordination provisions of Section 8, upon the occurrence and continuance of an Event of Default, the Lender has, in addition to any other rights and remedies contained in this Agreement, all of the rights and remedies of a secured party under the Code or other applicable laws, all of which rights and remedies are cumulative, and none exclusive, to the extent permitted by law. Any single or partial exercise by the Lender of any right or remedy for a default or breach of any term, covenant, condition or agreement in this Agreement does not affect its rights and does not waive, alter, affect, or prejudice any other right or remedy to which the Lender may be lawfully entitled for the same default or breach.

7.3 Waiver of Demand. Demand, presentment, protest and notice of nonpayment are waived by the Borrower. The Borrower also waives the benefit of all valuation, appraisal and exemption laws.

7.4 Marshalling; Payments Set Aside. The Lender is under no obligation to marshall any assets in favor of the Borrower or any other party or against or in payment of any or all of the Liabilities. To the extent that the Borrower makes a payment or payments to the Lender or the Lender enforces its security interests or exercises its rights of setoff, and such payment or payments or the proceeds of such enforcement or setoff or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to a trustee, receiver or any other party under any bankruptcy law, state or federal law, common law or equitable cause, then to the extent of such recovery, the obligation or part thereof originally intended to be satisfied will be revived and continue in full force and effect as if such payment had not been made or such enforcement or setoff had not occurred.

8. SUBORDINATION.

8.1 Agreement to Subordinate.

(A) Terms of Subordination. The Lender and the Borrower agree that the lien granted by the Borrower hereunder to secure the Liabilities is subordinate, to the extent and in the manner set forth in this Agreement, to the lien of the First Mortgage Bond Indenture and any and all of the bonds outstanding from time to time thereunder (the "Senior Obligations"). Notwithstanding the order or time of creation, acquisition, attachment, or the order, time, or manner of perfection, or the order or time of filing or recordation of any document or instrument, or other method of perfecting a security interest or Lien on and against any of the Collateral or other assets of the Borrower, the Lender agrees that any Lien or security interest now or hereafter existing in and to the Collateral in favor of the Lender shall be and at all times remain subject and subordinate in all respects to any Lien or security interest which may now or hereafter at any time or from time to time be granted pursuant to the First Mortgage Bond Indenture on or in any or all of the Collateral as security for the Senior Obligations.

(B) Further Assurances. The Lender and the Borrower will, at the Borrower's expense and at any time and from time to time, promptly execute and deliver all further instruments and documents, and take all further action, that may be necessary, or that the Bond Trustee may reasonably request, in order to protect any right or interest granted or purported to be granted by this Agreement or to enable the Bond Trustee to exercise and enforce its rights and remedies under this Agreement.

8.2 Administration of Collateral. The Bond Trustee shall have complete and sole discretion in, and shall not be liable to the Lender for, determining how, when and in what manner the Bond Trustee administers the Senior Obligations or forecloses or otherwise realizes upon the Collateral or exercises any rights or remedies of a secured party or lien creditor or any other rights with respect to the Collateral or otherwise takes any action with respect thereto. Without in any way limiting the foregoing, the Lender specifically acknowledges and agrees that the Bond Trustee may take such action as it deems appropriate to enforce the Senior Obligations and its Lien on and security interest in the Collateral, whether or not such action is beneficial or

detrimental to the Lender's interest. The Lender agrees that it shall not take any action to foreclose or otherwise realize upon the Collateral or exercise any rights or remedies of a secured party with respect to the Collateral, unless and until the Senior Obligations have been paid in full. Also without in any way limiting the foregoing, the Lender hereby expressly waives and releases any and all rights to have the Collateral or any part thereof marshaled upon any foreclosure, sale or other realization thereon. There shall be no obligation on the part of the Bond Trustee, at any time, to resort for payment of the Senior Obligations to any obligor thereon or any guarantor thereof, or to any other person or corporation, their properties or estates, or to resort to any other collateral or any other rights or remedies whatsoever, and the Bond Trustee shall have the right to foreclose or otherwise realize upon the Collateral upon which it has a security interest irrespective of whether or not other proceedings or steps are pending seeking resort to or realization upon or from any of the foregoing.

8.3 Delivery of Proceeds of Collateral. So long as the Senior Obligations are outstanding, the Lender will without demand or request being made upon it deliver any parts or proceeds of the Collateral which shall come into its possession, control or custody to the Bond Trustee for application as set forth in the First Mortgage Bond Indenture.

8.4 Agreement Not to Contest. The Lender hereby agrees that it shall not contest the validity, perfection, priority or enforceability of any security interest or Lien granted to the Bond Trustee pursuant to the First Mortgage Bond Indenture.

8.5 Release of Collateral. The Lender agrees that in the event the Bond Trustee shall come into the possession, custody and control of any property or assets of the Borrower as the result of any security interest granted to secure the Senior Obligations, the Bond Trustee may, to the extent the Bond Trustee does not apply the same to the payment or partial payment of the Senior Obligations, release the same to or upon the order of the Borrower, without notice, or accounting for the same, to the Lender or any other person, firm or corporation whomsoever, it being specifically understood and agreed that any property so released shall remain subject to all claims of the Lender and the Bond Trustee thereto in accordance herewith. Without limiting the foregoing, the Lender acknowledges and agrees that the Bond Trustee may from time to time in its discretion release proceeds of the Collateral in which the Bond Trustee has a security interest to the Borrower or otherwise deal with the Collateral in which the Bond Trustee has a security interest, without any notice or accounting to the Lender whatsoever.

8.6 Release of Security Interest. The Lender agrees that, whether or not a default has occurred in payment of the Loans, its Lien on the Collateral or any portion thereof shall automatically be released ipso facto as to all indebtedness secured thereby owing to the Lender if, when and to the same extent that the Bond Trustee releases its Lien on such Collateral or portion thereof. The Lender further hereby agrees to execute and deliver such further instruments and do such further acts as the Borrower or the Bond Trustee may deem necessary or proper to carry out more effectively the foregoing.

8.7 Obligations under this Agreement Not Affected. Except as specifically described in this Agreement, nothing contained in this Agreement or in any Note is intended to or impairs, as between the Borrower, its creditors other than the Bond Trustee and the Lender, the obligations of the Borrower, which are absolute and unconditional, to pay to the Lender the

Liabilities as and when they become due and payable in accordance with the terms of this Agreement, subject, however, to the terms of this Section 8. Except as specifically described in this Agreement, nothing contained in this Agreement or in any Note is intended to or affects the relative rights of the Lender and creditors of the Borrower other than the Bond Trustee.

8.8 Bankruptcy. The Lender agrees that in the event bankruptcy proceedings are instituted by or against the Borrower, the Bond Trustee may consent to the use of cash collateral or provide postpetition financing under section 364 of the United States Bankruptcy Code, 11 U.S.C. § 364, to the Borrower on such terms and conditions and in such amounts as the Bond Trustee, in its sole discretion, may decide. The Lender waives any rights it may have under applicable law to object to such use of such cash collateral or postpetition financing.

8.9 Third Party Beneficiary. The Bond Trustee shall be a third party beneficiary of this Section 8.

9. MISCELLANEOUS.

9.1 Amendments and Waivers. No modification or waiver of, nor any consent to the departure by the Borrower from, any provision of this Agreement will be effective unless it is in writing from the Lender and then such modification, waiver or consent will be effective only on the specific instance and for the purpose for which it is given.

9.2 Severability. Wherever possible, each provision of this Agreement must be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is prohibited by or invalid under applicable law, such provision is ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of this Agreement.

9.3 Notices. Except as otherwise expressly provided in this Agreement, any notice required or desired to be served, given or delivered under this Agreement must be in writing and is deemed to have been validly served, given or delivered (i) three days after deposit in the United States mails, with proper postage prepaid, (ii) when sent after receipt of confirmation if sent by telecopy or other similar facsimile transmission, (iii) one Business Day after deposit with a reputable overnight courier with all charges prepaid or (iv) when delivered, if hand delivered by messenger, all of which must be properly addressed to the party to be notified and sent to the address or number indicated on the signature page hereof or to such other address or number as each party designates to the other in the manner prescribed in this Section 9.3.

9.4 Counterparts. This Agreement and any amendment or supplement to this Agreement or any waiver granted in connection with this Agreement may be executed in any number of counterparts and by the different parties on separate counterparts and each such counterpart is deemed to be an original, but all such counterparts together constitute but one and the same Agreement.

9.5 Prior Agreements. The terms and conditions set forth in this Agreement supersede all prior agreements, discussions, correspondence, memoranda and understandings (whether written or oral) of the Borrower and the Lender concerning or relating to the subject matter of this Agreement.

9.6 Successors and Assigns. This Agreement is binding upon the Borrower and the Lender and their respective successors and assigns and inures to the benefit of the Borrower and the Lender and their respective successors and permitted assigns. The Borrower has no right to assign its rights or delegate its duties under this Agreement, without the prior written consent of the Lender. The Lender has the right to assign to any Affiliate of the Lender all or a portion of its rights and obligations under this Agreement. Upon any such assignment by the Lender, (i) the assignee becomes a party to this Agreement and, to the extent of such assignment, has all rights and obligations of the Lender under this Agreement and (ii) the Lender will, to the extent of such assignment, relinquish its rights and be released from its obligations under this Agreement. The Borrower and the Lender agree to execute and deliver such documents, and to take such other actions, as the other party may reasonably request to accomplish the foregoing.

9.7 CHOICE OF LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED FOR ALL PURPOSES IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF DELAWARE.

* * * * *

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

**[LOUISVILLE GAS AND ELECTRIC
COMPANY]
[KENTUCKY UTILITIES COMPANY]**

Address: 220 West Main Street
Louisville, Kentucky 40202
Attn: Treasurer
Facsimile: 502-627-4742

By: _____
Name: _____
Title: _____

FIDELIA CORPORATION

Address: 300 Delaware Avenue
Wilmington, Delaware 19801
Attn: Executive Vice President
Facsimile: 302-417-5913

By: _____
Name: _____
Title: _____

EXHIBIT A**FORM OF NOTE**

\$ _____

Date: _____

FOR VALUE RECEIVED, on _____ (the "Maturity Date") the undersigned, [LOUISVILLE GAS AND ELECTRIC COMPANY] [KENTUCKY UTILITIES COMPANY], a Kentucky [and Virginia] corporation (the "Borrower"), unconditionally promises to pay to FIDELIA CORPORATION (the "Lender"), at the Lender's office at 300 Delaware Avenue, Wilmington, Delaware 19801, or at such other place as the holder of this Note may from time to time designate in writing, in lawful money of the United States of America and immediately available funds, the principal sum of \$ _____ plus interest at rate of ____%. This Note is referred to in and was executed and delivered under the Loan and Security Agreement dated as of _____, 200__ (the "Loan Agreement") between the Borrower and the Lender, to which reference is made for a more complete statement of the terms and conditions under which the loan evidenced by this Note was made and is to be repaid. Capitalized terms used in this Note and not otherwise defined have the meanings assigned to such terms in the Loan Agreement.

Unless otherwise paid sooner under the provisions of Section 2.6(c) or 7.1 of the Loan Agreement, the principal indebtedness represented by this Note is payable on the Maturity Date. The Borrower further promises to pay interest on the outstanding principal amount of the indebtedness represented by this Note from the date of this Note until payment in full at the applicable rates determined in accordance with Section 2.3(A) of the Loan Agreement.

If payment under this Note becomes due and payable on a Business Day, the due date of such payment is extended to the next succeeding Business Day. In no contingency or event whatsoever will interest charged under this Note, however such interest may be characterized or computed, exceed the highest rate permissible under any law which a court of competent jurisdiction, in a final determination, deems applicable to this Note. In the event that such a court determines that the Lender has received interest under this Note in excess of the highest rate applicable to this Note, any such excess interest collected by the Lender is deemed to have been a repayment of principal and be so applied.

The obligations of the Borrower under this Note is secured by certain collateral as and to the extent set forth in the Loan Agreement. This Note is subject to prepayment at the option of the Borrower as provided in the Loan Agreement.

DEMAND, PRESENTMENT, PROTEST AND NOTICE OF NONPAYMENT AND PROTEST ARE WAIVED BY THE BORROWER.

This Note has been delivered and is deemed to have been made, at Wilmington, Delaware and will be interpreted in accordance with the internal law as (as opposed to conflicts of law provisions) and decisions of the State of Delaware. Whenever possible each provision of this Note will be interpreted in such manner as to be effective and valid under applicable law, but if

any provision of this Note is prohibited by or invalid under applicable law, such provision will be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Note. Whenever in this Note reference is made to the Lender or the Borrower, such reference is deemed to include, as applicable, a reference to their respective successors and assigns. The provisions of this Note are binding upon and inure to the benefit of said successors and assigns. The Borrower's successors and assigns include, without limitation, a receiver, trustee or debtor-in-possession of or for the Borrower.

**[LOUISVILLE GAS AND ELECTRIC COMPANY]
[KENTUCKY UTILITIES COMPANY]**

By: _____
Title:

Kentucky Utilities Company
(as Borrower)

Fidelia Corporation
(as Lender)

LOAN AGREEMENT

Contents

Clause	Page
1. DEFINITIONS.....	1
2. TERM LOAN.....	2
3. AVAILABILITY OF REQUESTS.....	2
4. INTEREST.....	2
5. REPAYMENT AND PREPAYMENT.....	3
6. PAYMENTS.....	3
7. TERMINATION EVENTS.....	4
8. OPERATIONAL BREAKDOWN.....	4
9. NOTICES.....	5
10. ASSIGNMENT.....	5
11. SEVERABILITY.....	5
12. COUNTERPARTS.....	5
13. LAW.....	6
14. EXHIBIT "A" PROMISSORY NOTE.....	7

THIS AGREEMENT made on _____

Between

KENTUCKY UTILITIES COMPANY, a Kentucky and Virginia corporation,
as borrower (the *Borrower*); and

FIDELIA CORPORATION, a Delaware corporation, as lender (the
Lender).

Whereas

(A) The Lender and the Borrower hereby enter into an agreement for the
provision by the Lender to the Borrower of a loan in the amount of
_____ (the Loan Amount).

Now it is hereby agreed as follows:

1. Definitions

1.1 In this Agreement

Business Day means a day on which banks in New York are generally
open

Default Interest Rate means: the rate, as determined by the Lender,
applying to the principal element of an overdue amount under Clause 6.3,
calculated as the sum of the interest rate in effect immediately before the
due date of such amount, plus 1%;

Effective Date shall have the meaning given to it in Clause 2.1;

Final Repayment Date means _____;

Interest Payment Date means _____ and _____ of each year
during the term of this agreement, provided, that:

any Interest Payment Date which is not a Business Day shall be extended
to the next succeeding Business Day;

Loan Amount means _____;

Maturity Date means the Final Repayment Date;

Request means a request for the Loan Amount from the Borrower to the Lender under the terms of clause 3.1;

Termination Event means an event specified as such in Clause 7;

Value Date means the date upon which cleared funds are made available to the Borrower by the Lender pursuant to a Request made in accordance with Clause 3.1. Such date shall be a Business Day as defined herein.

2. Term Loan

- 2.1 This Agreement shall come into effect on _____ (the "Effective Date").
- 2.2 The Lender grants to the Borrower upon the terms and conditions of this Agreement a term loan in an amount of _____.
- 2.3 The new indebtedness shall be evidenced by a note in substantially the form of Exhibit "A" attached hereto.

3. Availability of Requests

- 3.1 On the Effective Date, the Borrower will submit a request (the "Request") to the Lender for the Loan Amount, such Request specifying the Value Date, the Maturity Date and the bank account to which payment is to be made. The Request shall be submitted to the Lender by the Borrower and delivered in accordance with Clause 9.3.

4. Interest

- 4.1 The rate of interest on the Loan Amount is x.xx%.
- 4.2 Interest shall accrue on the basis of a 360-day year consisting of twelve 30 day months upon the Loan Amount.
- 4.3 Interest shall be payable in arrears on each Interest Payment Date.

5. Repayment and Prepayment

- 5.1** The Borrower shall repay the Loan Amount together with all interest accrued thereon and all other amounts due from the Borrower hereunder on the Final Repayment Date, whereupon this Agreement shall be terminated.
- 5.2** On any Interest Payment Date, and with at least three business day's prior written notice, the Borrower shall be entitled to prepay any amount of the loan outstanding, provided such payment is not less than \$1,000,000 and, provided further, the Borrower shall pay a prepayment charge equal to the present value of the difference between (i) the interest payable provided in this loan agreement and (ii) the interest payable at the prevailing interest rate at the time of prepayment, for the period from the date of prepayment through the Maturity Date, which difference, if negative, shall be deemed to be zero. The present value will be determined using the prevailing interest rate at the time of the prepayment as the discount rate.
- 5.3** A certificate from the Lender as to the amount due at any time from the Borrower to the Lender under this Agreement shall, in the absence of manifest error, be conclusive.

6. Payments

- 6.1** All payments of principal to be made to the Lender by the Borrower shall be made on the Final Repayment Date, or on an Interest Payment Date under Clause (5.2) to such account as the Lender shall have specified.
- 6.2** Interest shall be payable in arrears on each Interest Payment Date.
- 6.3** If and to the extent that full payment of any amount due hereunder is not made by the Borrower on the due date then, interest shall be charged at the Default Interest Rate on such overdue amount from the date of such default to the date payment is received by the Lender.

7. Termination Events

- 7.1** The Borrower shall notify the Lender of any Event of Default (and the steps, if any, being taken to remedy it) promptly upon becoming aware of it.
- 7.2** The following shall constitute an Event of Default hereunder:
 - 7.2.1** Default is made by the Borrower in the payment of any sum due under this Agreement and such default continues for a period of 10 Business Days;
 - 7.2.2** Bankruptcy proceedings are initiated against the Borrower;
 - 7.2.3** The Borrower leaves the E.ON Group (i.e. the companies consolidated in EON AG's balance sheet);
 - 7.2.4** Securities and Exchange Commission or Public Utility Holding Company Act (PUHCA) requirements prohibit the transactions hereunder.

If a Termination Event occurs under Clause (7.2.2) of this section, the Loan Amount outstanding together with interest will become due and payable immediately.

If a Termination Event occurs according to Clauses (7.2.1) or (7.2.3) or (7.2.4) of this Section, Lender shall at its discretion grant Borrower a reasonable grace period unless such grace period shall be detrimental to the Lender. If the Termination Event is uncured at the expiration of such period, the Loan Amount outstanding together with interest will become due and payable immediately.

8. Operational Breakdown

- 8.1** The Borrower is not liable for any damages incurred by the Lender and the Lender is not liable for any damages incurred by the Borrower caused by Acts of God or other circumstances incurred by one party for which the other party cannot be held responsible (i.e. power outages, strikes, lock-outs, domestic and foreign acts of government and the like).

9. Notices

- 9.1 Each communication to be made in respect of this Agreement shall be made in writing but, unless otherwise stated, may be made by facsimile transmission or letter.
- 9.2 Communications to the Borrower shall be addressed to: Kentucky Utilities, 220 W. Main St., Louisville, KY 40202, Attn: Treasurer fax# (502) 627-4742 and to One Quality Street, Lexington, KY 40507, except for confirmations which should be sent to the attention of Mimi Kelly.
- 9.3 Communications to the Lender shall be addressed to: Fidelia Corporation, 300 Delaware Avenue, Suite 545, Wilmington, Delaware 19801, fax# (302) 427-5913, Attn: Executive Vice President

10. Assignment

- 10.1 The Lender may at any time assign, novate or otherwise transfer all or any part of its rights and obligations under this Agreement to any affiliate of the Lender.

11. Severability

- 11.1 If any of the provisions of this Agreement becomes invalid, illegal or unenforceable in any respect under any law, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired.

12. Counterparts

- 12.1 This Agreement may be executed in any number of counterparts that shall together constitute one Agreement. Any party may enter into an Agreement by signing any such counterpart.

13. Law

13.1 This Agreement shall be governed by and construed for all purposes in accordance with the laws of Delaware.

IN WITNESS whereof the parties have executed this Agreement the day and year first above written.

SIGNED by _____)
for and on behalf of)
Kentucky Utilities Company)
in the presence of:)

SIGNED by _____)
for and on behalf of)
Fidelia Corporation)
in the presence of:)

EXHIBIT "A"

PROMISSORY NOTE

U.S. _____

Louisville, KY, _____

Kentucky Utilities Company ("KU"), for value received, hereby promises to pay to the order of FIDELIA Corporation ("FIDELIA") in lawful money of the United States of America (in freely transferable U.S. dollars and in same day funds), in accordance with the method of payment specified in that certain Loan Agreement dated as of _____, between FIDELIA and KU ("the Agreement"), the principal sum of _____, which amount shall be payable at such times as provided in the Agreement.

KU promises also to pay interest on the unpaid principal amount hereof in like money and in like manner at the rates which shall be determined in accordance with the provisions of the Agreement, said interest to be payable at the times provided for in the Agreement. This Note is referred to in the Agreement and is entitled to the benefits thereof and the security contemplated thereby. This Note evidences a loan made by FIDELIA, during such time as such loan is being maintained. This Note is subject to prepayment as specified in the Agreement. In case KU defaults on the loan, the principal and accrued interest on this Note may be declared to be due and payable in the manner and with the effect provided in the Agreement.

KU hereby waives presentment, demand, protest or notice of any kind in connection with this Note.

Kentucky Utilities Company

By: _____

<u>Term</u>	<u>Fidelia/ E.ON AG Cost</u>	<u>KU Direct Capital Market Financing</u>	<u>Intercompany from Fidelia</u>
5 years	4.40%	4.75%	4.40%
10 years	5.00%	5.25%	5.00%

The intercompany rate is determined using the lower of the Fidelia costs and the direct financing costs.

Redemption

The Bonds are not redeemable prior to June 1, 2005. On and after June 1, 2005, the Bonds are redeemable at the option of the Company, in whole at any time, or in part from time to time by lot, at the redemption price, expressed as a percentage of the principal amount of the Bonds, stated below for the applicable period, together with accrued interest to the redemption date:

<u>If Redeemed During the 12 Months Beginning June 1</u>	<u>Redemption Price</u>	<u>If Redeemed During the 12 Months Beginning June 1</u>	<u>Redemption Price</u>
2005.....	103.775%	2015.....	100%
2006.....	103.398	2016.....	100
2007.....	103.020	2017.....	100
2008.....	102.643	2018.....	100
2009.....	102.265	2019.....	100
2010.....	101.888	2020.....	100
2011.....	101.510	2021.....	100
2012.....	101.133	2022.....	100
2013.....	100.755	2023.....	100
2014.....	100.378	2024.....	100

Notice of redemption of any Bonds will be mailed to the owners of the Bonds not later than the 30th day prior to the redemption date at their addresses appearing on the registry books; provided, however, that failure to mail such notice to any registered owners or any imperfection or defect therein shall not affect the validity of any of the proceedings for redemption with respect to the Bonds for which notice was properly given. On and after the date fixed for redemption and upon receipt by the Trustee on or before the redemption date of a sum in cash sufficient to redeem the Bonds so called for redemption, the Bonds called for redemption shall cease to bear further interest and shall cease to be secured by the Indenture. See "Book-Entry System."

Maintenance and Repair

With respect to the Company's first mortgage bonds of all prior series issued under the Indenture (other than pollution control series Nos. 7, 8, 1B, 2B, 3B, 4B, 9 and 10), the Indenture provides that so long as such first mortgage bonds are outstanding, and the New Supplemental Indenture will provide that, so long as the Bonds are outstanding, the Company will expend during each calendar year, and certify to the Trustees, an amount equal to 15% of its utility operating revenues for such year, after deducting from such revenues the cost of electricity, gas and water purchased for exchange or resale, for (1) the maintenance and repair of its utility properties, (2) bondable property on which the Indenture is a first mortgage lien, and/or (3) the retirement of the Company's first mortgage bonds of any series heretofore or hereafter issued under the Indenture. In lieu of such requirement, the Company may pay to the Trustees, in cash, any deficiency in the amount required to be so expended, after deducting any unapplied excess expenditures previously made for any of such purposes. Any such cash may be applied to the retirement, through purchase, payment or redemption, of the Company's first mortgage bonds (such retirement by redemption to be only if such first mortgage bonds are otherwise redeemable) or be withdrawn by the Company to the extent of 100% of either gross or net expenditures for bondable property on which the Indenture is a first mortgage lien. There is no requirement under the Indenture that future series of the Company's first mortgage bonds be entitled to a maintenance or repair covenant.

The Indenture also provides that (i) the Company shall maintain the mortgaged properties in good repair and working order, (ii) the Trustee may, and if requested by holders of a majority in principal amount of all outstanding first mortgage bonds of the Company and furnished with the necessary funds therefor shall, cause such properties to be inspected by an independent engineer (not more often than at five-year intervals) to

KENTUCKY UTILITIES
Debt Refunding Analysis

Kentucky Utility 7.55% Series R due June 1, 2025
Comparison Fixed Rate
Impact on Cash Flow

EXISTING CAPITALIZATION										PROPOSED REFUNDING										PRESENT VALUE ANALYSIS									
Series R First Mortgage Bonds										U S Treasury 30-Year Bond with Spread																			
Date	Principal Outstanding	Interest @ 7.550%	Debt Expense Amortization	Taxes	Total Cash Outlay	Interest @ 5.43%	Debt Expense Amortization (1)	Call Premium	Issue Expenses	Taxes (2)	Total Cash Outlay	Periodic (Cost) or SAVINGS from Present Value Factor	Present Value SAVINGS (\$1,125,658)																
01-Jun-05	\$ 50,000,000	1,887,500	9,280	(765,588)	1,121,912	1,357,500	9,280	\$1,887,500	\$0	(761,842)	\$1,125,658	0.9840	1,000,000																
01-Dec-05	50,000,000	1,887,500	9,280	(765,588)	1,121,912	1,357,500	9,280			(551,667)	805,833	316,079	0.9840	311,009															
02-Jun-06	50,000,000	1,887,500	9,280	(765,588)	1,121,912	1,357,500	9,280			(551,667)	805,833	316,079	0.9682	308,020															
02-Dec-06	50,000,000	1,887,500	9,280	(765,588)	1,121,912	1,357,500	9,280			(551,667)	805,833	316,079	0.9526	301,112															
03-Jun-07	50,000,000	1,887,500	9,280	(765,588)	1,121,912	1,357,500	9,280			(551,667)	805,833	316,079	0.9374	296,282															
03-Dec-07	50,000,000	1,887,500	9,280	(765,588)	1,121,912	1,357,500	9,280			(551,667)	805,833	316,079	0.9223	291,530															
03-Jun-08	50,000,000	1,887,500	9,280	(765,588)	1,121,912	1,357,500	9,280			(551,667)	805,833	316,079	0.9075	286,854															
03-Dec-08	50,000,000	1,887,500	9,280	(765,588)	1,121,912	1,357,500	9,280			(551,667)	805,833	316,079	0.8930	282,253															
04-Jun-09	50,000,000	1,887,500	9,280	(765,588)	1,121,912	1,357,500	9,280			(551,667)	805,833	316,079	0.8787	277,725															
04-Dec-09	50,000,000	1,887,500	9,280	(765,588)	1,121,912	1,357,500	9,280			(551,667)	805,833	316,079	0.8646	273,271															
05-Jun-10	50,000,000	1,887,500	9,280	(765,588)	1,121,912	1,357,500	9,280			(551,667)	805,833	316,079	0.8507	268,888															
05-Dec-10	50,000,000	1,887,500	9,280	(765,588)	1,121,912	1,357,500	9,280			(551,667)	805,833	316,079	0.8371	264,575															
06-Jun-11	50,000,000	1,887,500	9,280	(765,588)	1,121,912	1,357,500	9,280			(551,667)	805,833	316,079	0.8236	260,331															
06-Dec-11	50,000,000	1,887,500	9,280	(765,588)	1,121,912	1,357,500	9,280			(551,667)	805,833	316,079	0.8104	256,155															
06-Jun-12	50,000,000	1,887,500	9,280	(765,588)	1,121,912	1,357,500	9,280			(551,667)	805,833	316,079	0.7974	252,047															
06-Dec-12	50,000,000	1,887,500	9,280	(765,588)	1,121,912	1,357,500	9,280			(551,667)	805,833	316,079	0.7846	248,004															
07-Jun-13	50,000,000	1,887,500	9,280	(765,588)	1,121,912	1,357,500	9,280			(551,667)	805,833	316,079	0.7720	244,026															
07-Dec-13	50,000,000	1,887,500	9,280	(765,588)	1,121,912	1,357,500	9,280			(551,667)	805,833	316,079	0.7597	240,112															
08-Jun-14	50,000,000	1,887,500	9,280	(765,588)	1,121,912	1,357,500	9,280			(551,667)	805,833	316,079	0.7475	236,261															
08-Dec-14	50,000,000	1,887,500	9,280	(765,588)	1,121,912	1,357,500	9,280			(551,667)	805,833	316,079	0.7355	232,471															
09-Jun-15	50,000,000	1,887,500	9,280	(765,588)	1,121,912	1,357,500	9,280			(551,667)	805,833	316,079	0.7237	228,742															
09-Dec-15	50,000,000	1,887,500	9,280	(765,588)	1,121,912	1,357,500	9,280			(551,667)	805,833	316,079	0.7121	225,073															
09-Jun-16	50,000,000	1,887,500	9,280	(765,588)	1,121,912	1,357,500	9,280			(551,667)	805,833	316,079	0.7007	221,463															
09-Dec-16	50,000,000	1,887,500	9,280	(765,588)	1,121,912	1,357,500	9,280			(551,667)	805,833	316,079	0.6894	217,911															
10-Jun-17	50,000,000	1,887,500	9,280	(765,588)	1,121,912	1,357,500	9,280			(551,667)	805,833	316,079	0.6784	214,416															
10-Dec-17	50,000,000	1,887,500	9,280	(765,588)	1,121,912	1,357,500	9,280			(551,667)	805,833	316,079	0.6675	210,977															
11-Jun-18	50,000,000	1,887,500	9,280	(765,588)	1,121,912	1,357,500	9,280			(551,667)	805,833	316,079	0.6568	207,593															
11-Dec-18	50,000,000	1,887,500	9,280	(765,588)	1,121,912	1,357,500	9,280			(551,667)	805,833	316,079	0.6462	204,263															
12-Jun-19	50,000,000	1,887,500	9,280	(765,588)	1,121,912	1,357,500	9,280			(551,667)	805,833	316,079	0.6359	200,987															
12-Dec-19	50,000,000	1,887,500	9,280	(765,588)	1,121,912	1,357,500	9,280			(551,667)	805,833	316,079	0.6257	197,763															
13-Jun-20	50,000,000	1,887,500	9,280	(765,588)	1,121,912	1,357,500	9,280			(551,667)	805,833	316,079	0.6156	194,591															
13-Dec-20	50,000,000	1,887,500	9,280	(765,588)	1,121,912	1,357,500	9,280			(551,667)	805,833	316,079	0.6056	191,469															
14-Jun-21	50,000,000	1,887,500	9,280	(765,588)	1,121,912	1,357,500	9,280			(551,667)	805,833	316,079	0.5960	188,398															
14-Dec-21	50,000,000	1,887,500	9,280	(765,588)	1,121,912	1,357,500	9,280			(551,667)	805,833	316,079	0.5865	185,376															
15-Jun-22	50,000,000	1,887,500	9,280	(765,588)	1,121,912	1,357,500	9,280			(551,667)	805,833	316,079	0.5771	182,403															
15-Dec-22	50,000,000	1,887,500	9,280	(765,588)	1,121,912	1,357,500	9,280			(551,667)	805,833	316,079	0.5678	179,477															
15-Jun-23	50,000,000	1,887,500	9,280	(765,588)	1,121,912	1,357,500	9,280			(551,667)	805,833	316,079	0.5587	176,598															
15-Dec-23	50,000,000	1,887,500	9,280	(765,588)	1,121,912	1,357,500	9,280			(551,667)	805,833	316,079	0.5498	173,766															
15-Jun-24	50,000,000	1,887,500	9,280	(765,588)	1,121,912	1,357,500	9,280			(551,667)	805,833	316,079	0.5409	170,979															
15-Dec-24	50,000,000	1,887,500	9,280	(765,588)	1,121,912	1,357,500	9,280			(551,667)	805,833	316,079	0.5323	168,236															
16-Jun-25	50,000,000	1,887,500	9,280	(765,588)	1,121,912	1,357,500	9,280			(551,667)	805,833	316,079	0.5237	165,538															
TOTAL		\$15,500,000	\$371,213	\$330,623,516	\$44,676,482	\$54,300,000	\$371,213	\$1,887,500	\$0	\$522,828,510	\$33,358,990	\$11,517,492		\$8,109,288															

(1) Debt Amortization Expense includes issuing costs of new series remaining unamortized debt expense of the old series and call premium
(2) Tax calculation based on interest expense and the amortization of new issue debt expense

Assumptions

Kentucky Utility 7 55% Series R due June 1, 2025
Comparison Fixed Rate

Assumptions

EXISTING ISSUE

Kentucky Utility First Mortgage Bond
7 55% \$ 50,000,000 Matures June 1 2025

Unamortized Debt Expense

\$371,213 At January 1 2005

Remaining amortization period

From June 1 2005 to Maturity 240.0 months
Assuming a 15 Year Extension 0.0 months

Redemption (Call) Price

103.775% FIRST CALL June 1, 2005
Amount of Premium \$1,887,500

Cost of Funds (Lost Investment Earnings)

2.00%

PROPOSED REFUNDING

5.435% \$ 50,000,000 Matures June 1 2025

Bond Issue Costs

Underwriting	0.00%	0.00%
Bond Counsel	\$ -	0.00%
Company Counsel	\$ -	0.00%
Underwriters Counsel	\$ -	0.00%
Rating	\$ -	0.00%
Printing	\$ -	0.00%
Trustee Counsel	\$ -	0.00%
Accountants	\$ -	0.00%
AMT	\$ -	0.00%
Insurance costs	\$ -	0.00%

MISCELLANEOUS

Tax rate 40.365%

Discount rate 3.24%

KENTUCKY UTILITIES COMPANY

FINANCIAL EXHIBIT

DECEMBER 31, 2004

(1) Amount and kinds of stock authorized.

80,000,000 shares of Common Stock, without par value.

5,300,000 shares of Cumulative Preferred Stock, without par value.

(2) Amount and kinds of stock issued and outstanding.

Common Stock:

37,817,878 shares issued and outstanding.

Preferred Stock

\$100 stated value, 4-3/4% cumulative, 200,000 shares issued and outstanding.

\$100 stated value, 6.53% cumulative, 200,000 shares issued and outstanding.

(3) Terms of preference of preferred stock whether cumulative or participating, or on dividends or assets otherwise.

Preferred Stock outstanding has cumulative provision on dividends.

(4) Brief description of each mortgage on property of Petitioner, giving date of execution name of mortgagor, name of mortgagee, or trustee, amount of indebtedness authorized to be secured thereby, and the amount of the indebtedness actually secured, together with any sinking fund provisions.

Mortgage indenture dated May 1, 1947, executed by and between the Company and U.S. Bank National Association (the "Trustee") and Richard Prokosch, as trustees and amended by the several indentures supplemental thereto. As of December 31, 2004, the amount of indebtedness secured thereby was \$385,030,000. The indenture does not fix an overall limitation on the aggregate principal amount of bonds of all series that may be issued or outstanding thereunder.

- (5) Amount of bonds authorized, and amount issued giving the name of the public utility which issued the same, describing each class separately, and giving date of issue, face value, rate of interest, date of maturity and how secured, together with an amount of interest paid thereon during the last fiscal year.

First Mortgage Bonds authorized and issued by Kentucky Utilities Company at December 31, 2004, secured by a first mortgage lien, subject only to permitted encumbrances, on all or substantially all the permanent fixed properties, other than excluded property, owned by the Company:

Series	Date of Issue	Date of Maturity	Rate of Interest	Principal Amount		Interest Expense Year Ended December 31, 2004
				Authorized	Outstanding at December 31, 2004	
P	05/15/92	05/15/07	7.92%	\$ 53,000,000	\$ 53,000,000	\$ 4,197,600
P	05/15/92	05/15/27	8.55%	33,000,000	-	-
Q	06/15/93	06/15/03	6.32%	62,000,000	-	-
R	06/01/95	06/01/25	7.55%	50,000,000	50,000,000	3,775,000
S	01/15/96	01/15/06	5.99%	36,000,000	36,000,000	2,156,400
Pollution Control Bonds						
9	12/01/93	12/01/23	5 75%	50,000,000	-	2,571,528
10	11/01/94	11/01/24	Variable	54,000,000	54,000,000	716,242
11	05/01/00	05/01/23	Variable	12,900,000	12,900,000	165,186
12	02/01/02	02/01/32	Variable	20,930,000	20,930,000	282,061
13	02/01/02	02/01/32	Variable	2,400,000	2,400,000	32,343
14	02/01/02	02/01/32	Variable	7,400,000	7,400,000	99,725
15	02/01/02	02/01/32	Variable	7,200,000	2,400,000	55,858
16	07/01/02	10/01/32	Variable	96,000,000	96,000,000	1,307,627
17	10/20/04	10/01/34	Variable	50,000,000	50,000,000	173,993
					385,030,000	15,533,563
Interest rate swap						(5,254,110)
Long term debt mark to market					8,180,817	(2,464,399)
Total					<u>\$ 393,210,817</u>	<u>\$ 7,815,054</u>

- (6) Each note outstanding, giving date of issue, amount, date of maturity, rate of interest in whose favor, together with amount of interest paid thereon during the last fiscal year.

<u>Payee</u>	<u>Date of Issue</u>	<u>Amount</u>	<u>Rate of Interest</u>	<u>Date of Maturity</u>	<u>Interest Expense Year Ended December 31, 2004</u>
LG&E Energy LLC	12/31/00	\$ 34,820,000	Various	Various	\$ 399,001
Fidela Corp.	04/30/03	100,000,000	4.55%	04/30/13	4,550,000
Fidela Corp.	08/15/03	75,000,000	5.31%	08/15/13	3,982,500
Fidela Corp.	11/24/03	33,000,000	4.24%	11/24/10	1,399,200
Fidela Corp.	12/18/03	75,000,000	2.29%	12/19/05	1,717,500
Fidela Corp.	01/15/04	50,000,000	4.39%	01/16/12	2,109,639

- (7) Other indebtedness, giving same by classes and describing security, if any with a brief statement of the devolution or assumption of any portion of such indebtedness upon or by person or corporation if the original liability has been transferred, together with amount of interest paid thereon during the last fiscal year.

None, other than current and accrued liabilities.

- (8) Rate and amount of dividends paid during the five previous fiscal years, and amount of capital stock on which dividends were paid. (1)

Dividends on Common Stock, without par value

1999	73,000,000
2000	94,500,000
2001	30,500,000
2002	-
2003	-
2004	63,000,000

- (1) As of May 1998, the 37,817,878 shares are all owned by LG&E Energy LLC and all dividends declared by KU's Board of Directors are paid to LG&E Energy LLC.

Dividends on 4 3/4% Cumulative Preferred Stock

For each of the quarters in the previous five fiscal years, the Company declared and paid dividends of \$1.1875 per share on the 200,000 outstanding shares of 4 3/4% Cumulative Preferred Stock, \$100 stated value, for a total of \$ 237,500 per quarter. On an annual basis the dividend amounted to \$4.75 per share, or \$950,000.

Dividends on 6.53% Cumulative Preferred Stock

For each of the quarters in the previous five fiscal years, the Company declared and paid dividends of \$1.6325 per share on the 200,000 outstanding shares of 6.53% Cumulative Preferred Stock, \$100 stated value, for a total of \$326,500 per quarter. On an annual basis the dividend amounted to \$6.53 per share, or \$1,306,000.

(9) Detailed Income Statement and Balance Sheet

Our most recent mailing covered financial statements for periods through December 31, 2004. Attached are detailed Statements of Income, Balance sheets and Retained Earnings for the Company for the period ending December 31, 2004

KENTUCKY UTILITIES COMPANY

The 2004 Form 10-K Annual Report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 (combined form 10-K, separately filed by Louisville Gas and Electric Company and Kentucky Utilities Company) contains Statements of Income, Balance Sheets, Statements of Retained Earnings, Statements of Cash Flows, Statements of Capitalization, Statements of Other Comprehensive Income, Management's Discussions and Analysis of Financial Condition and Results of Operation, and Notes to Financial Statements, for Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU"). The Annual Report for KU has been previously filed with the Authority.

We have also attached the succeeding three pages, detailed Statements of Income, Balance Sheets, and Statements of Retained Earnings for KU for the period ending December 31, 2004.

KENTUCKY UTILITIES COMPANY
STATEMENT OF INCOME
DECEMBER 31, 2004

	YEAR ENDED CURRENT YEAR
	THIS YEAR AMOUNT
Electric Operating Revenues	990,611,603 57
Rate Refunds	4,750,713 64
Total Operating Revenues	995,362,317 21
Operating Expenses	
Fuel	292,046,234 60
Power Purchased	144,232,055 66
Other Operation Expenses	145,482,795 21
Maintenance	60,891,725 68
Depreciation	102,621,186 71
Amortization Expense	6,250,772 07
Regulatory Credits	(1,521,074 04)
Taxes	
Federal Income	39,821,303 28
State Income	17,834,658 06
Deferred Federal Income - Net	21,942,201 41
Deferred State Income - Net	(468,877 67)
Federal Income - Estimated	-
State Income - Estimated	-
Property and Other	16,653,320 07
Loss (Gain) from Disposition of Allowances	(444,234 89)
Accretion Expense	1,302,024 00
Total Operating Expenses	846,644,090 15
Net Operating Income	148,718,227 06
Other Income Less Deductions	
Interest and Dividend Income	602,550 73
Other Income Less Deductions	8,516,800 58
AFUDC - Equity	1,135,466 22
Total Other Income Less Deductions	10,254,817 53
Income Before Interest Charges	158,973,044 59
Interest on Long Term Debt	21,573,894 35
Amortization of Debt Expense - Net	1,014,415 91
Other Interest Expenses	3,139,510 06
AFUDC - Borrowed Funds	(226,256 96)
Total Interest Charges	25,501,563 36
Net Inc Before Cumulative Effect of Acctg Chg	133,471,481 23
Cumulative Effect of Accounting Chg Net of Tax	-
Net Income	133,471,481 23
Preferred Dividend Requirements	2,256,006 35
Earnings Available for Common	131,215,474 88

KENTUCKY UTILITIES COMPANY
BALANCE SHEET AS OF DECEMBER 31, 2004

ASSETS AND OTHER DEBITS	THIS YEAR	LIABILITIES AND OTHER CREDITS	THIS YEAR
Utility Plant		Capitalization	
Utility Plant at Original Cost	3,712,149,192 08	Common Stock	308,139,977 56
Less Reserves for Depreciation & Amortization	<u>1,681,813,236 54</u>	Common Stock Expense	(321,288 87)
Total	2,030,335,955 54	Paid-In Capital	15,000,000 00
		Other Comprehensive Income	-
Investments - At Cost		Retained Earnings	647,299,790 10
Nonutility Property-Less Reserve	896,167 14	Unappropriated Undistributed Subsidiary Earnings	12,085,671 00
Investments in Subsidiary Companies	13,381,471 00	Total Common Equity	982,204,149 79
Investments in KU-R	-	Preferred Stock	39,726,894 58
Ohio Valley Electric Corporation	250,000 00	First Mortgage Bonds	385,030,000 00
Other	500,214 99	Other Long-Term Debt	-
Special Funds	<u>5,450,439 10</u>	LT Notes Payable to Associated Companies	258,000,000 00
Total	20,478,292 23	Long-Term Debt Marked to Market	8,180,817 00
		Total Long-Term Debt	651,210,817 00
Current and Accrued Assets		Total Capitalization	1,673,141,861 37
Cash	4,344,012 10	Current and Accrued Liabilities	
Special Deposits	142,985 08	Advances from Associated Companies	-
Accounts Receivable-Less Reserve	112,674,378 45	Long-Term Debt Due in 1 Year	75,000,000 00
Notes Receivable from Assoc Companies	-	Notes Payable	-
Notes Receivable from KU-R	-	Notes Payable to Associated Companies	34,820,000 00
Accounts Receivable from Assoc Companies	199,702 85	Accounts Payable	77,885,213 63
Materials & Supplies-At Average Cost	-	Accounts Payable to Associated Companies	33,033,677 90
Fuel	52,248,631 98	Customer Deposits	14,998,571 64
Plant Materials & Operating Supplies	22,573,864 10	Taxes Accrued	8,137,951 46
Stores Expense	5,397,803 73	Interest Accrued	5,788,973 39
Allowance Inventory	3,710,299 41	Dividends Declared	188,000 00
Prepayments	6,199,918 88	Misc Current & Accrued Liabilities	7,692,624 36
Miscellaneous Current & Accrued Assets	-	Total	257,545,012 38
Total	207,491,596 58		
		Deferred Credits and Other	
Deferred Debits and Other		Accumulated Deferred Income Taxes	346,526,480 70
Unamortized Debt Expense	4,732,446 80	Investment Tax Credit	3,805,051 32
Unamortized Loss on Bonds	11,369,947 70	Regulatory Liabilities	46,829,541 79
Accumulated Deferred Income Taxes	54,918,233 38	Customer Advances for Construction	1,611,500 49
Deferred Regulatory Assets	79,971,943 17	Asset Retirement Obligations	20,953,440 55
Other Deferred Debits	<u>37,313,064 52</u>	Other Deferred Credits	9,221,484 68
Total	188,305,635 57	Misc Long-Term Liabilities	17,821,726 26
		Accum Provision for Post-Retirement Benefits	69,155,380 38
Total Assets and Other Debits	2,446,611,479 92	Total	515,924,606 17
		Total Liabilities and Other Credits	2,446,611,479 92

KENTUCKY UTILITIES COMPANY
ANALYSIS OF RETAINED EARNINGS
DECEMBER 31, 2004

	Year to Date
Retained Earnings and Undistributed Earnings	Total Retained Earnings
Balance Beginning of Period.....	581,633,929.77
Net Income To Date.....	133,471,481.23
Other.....	9,597.45
Adjust for Equity in Subsidiary	
Earnings for Year	
-EE Inc.....	(2,559,212.00)
Dividends Rec'd Current Year	
-EE Inc.....	-
Preferred Stock Dividends.....	(2,256,006.35)
Common Stock Dividends.....	(63,000,000.00)
Balance End of Period.....	<u><u>647,299,790.10</u></u>

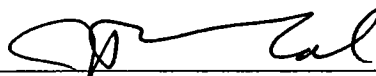
KENTUCKY UTILITIES COMPANY

The Petitioner's Indenture of Mortgage or Deed of Trust dated May 1, 1947, as heretofore amended, securing Petitioner's outstanding First Mortgage Bonds has heretofore been filed with the Authority. The most recent Supplemental Indenture, dated October 1, 2004, is on file with the Authority in Docket No. 04-00279 (In Re: Petition of Kentucky Utilities Company for an Order Authorizing the Issue of Securities and Assumption of Obligations).

SECRETARY'S CERTIFICATE

I, John R. McCall, do hereby certify that I am the duly qualified and acting Secretary of Kentucky Utilities Company (the "Company"), a Kentucky corporation, that as Secretary, I have access to all original records of the Company and that I am authorized to make certified copies of Company records on its behalf. I further hereby certify that the attached resolutions were adopted by the Board of Directors of the Company by unanimous written consent in lieu of a meeting, dated February 21, 2005, and that the attached is a full, true and correct copy of said resolutions as they appear on the records of the Company and that the same has not been altered, amended or repealed.

IN WITNESS WHEREOF, I have signed and affixed the seal of the Company this 11th day of March 2005.



John R. McCall
Executive Vice President, General
Counsel and Secretary

**ACTION OF THE BOARD OF DIRECTORS
OF
KENTUCKY UTILITIES COMPANY
TAKEN BY WRITTEN CONSENT**

February 21, 2005

APPROVAL OF INTERCOMPANY LOAN FACILITIES

WHEREAS, the Company desires to enter into intercompany long-term loans with Fidelia Corporation or other affiliates of E.ON North America, Inc. (collectively, "Fidelia"), in the amount of up to \$150 million (the "Intercompany Loans"), and

WHEREAS, the Intercompany Loans will enable the Company to borrow funds for use in refinancing maturing inter-affiliate indebtedness of approximately \$75 million, financing construction expenditures of approximately \$25 million, redeeming of first mortgage bonds of approximately \$50 million in principal amount or for general corporate purposes of the Company; and

WHEREAS, the Company may desire to secure all or part of such Intercompany Loans with a subordinated lien on its "equipment," such lien to be subordinate to the lien of the Company's first mortgage indenture.

NOW, THEREFORE, BE IT RESOLVED, that the Company is hereby authorized and directed to proceed with the Intercompany Loans as generally described in these resolutions; and

FURTHER RESOLVED, that, subject to receipt of all required regulatory approvals regarding the Intercompany Loans, the Company is authorized enter such loans and/or to secure such loans with a subordinated lien on its "equipment" as described herein; and

FURTHER RESOLVED, that the appropriate officers of the Company be, and each of them hereby is, authorized and directed, for and on behalf of the Company to take such actions and to execute, deliver and file the Intercompany Loans and such other agreements and documents, including security documents evidencing the subordinated lien for the Intercompany Loans, and to make changes thereto, as they shall, in their discretion, deem necessary, appropriate or advisable to consummate the transactions contemplated by these resolutions, with the taking of such actions and the execution of such agreements or documents conclusively to evidence the authorization thereof by the Board of Directors; and

FURTHER RESOLVED, that the appropriate officers of the Company be, and each of them hereby is, authorized and directed to prepare, execute and deliver such applications, filings or notices to governmental, commercial or financial entities as they may deem necessary or advisable in connection with the

Intercompany Loans, including but not limited, to submissions to federal and state regulatory agencies; and

FURTHER RESOLVED, that all actions heretofore or hereafter taken by any officer of the Company in connection with the transactions contemplated by these resolutions be, and they hereby are, approved, ratified and confirmed in all respects.